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THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED STATES

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED STATES

By

ROBERT R. BOWIE AND THEODORE GEIGER

LETTERS OF TRANSMITTAL

NOVEMBER 27, 1961.

To the Members of the Joint Economic Committee:

Transmitted herewith for use of the Joint Economic Committee and other Members of the Congress is a study paper prepared for the Subcommittee on Foreign Economic Policy, titled "The European Economic Community and the United States."

It is hoped that this paper will be especially useful to the members of the subcommittee and to the witnesses who will be testifying before the subcommittee beginning next week.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

NOVEMBER 27, 1961.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study paper titled "The European Economic Community and the United States," which has been prepared by Robert R. Bowie and Theodore Geiger, with the assistance of a number of other experts who are named in Professor Bowie's foreword to the report.

Professor Bowie is director of the Harvard Center for International Affairs and is Dillion professor of international relations at Harvard. He has been Director of the Policy Planning Staff of the State Department, a member of the National Security Council, and Assistant Secretary of State for Policy Planning. In 1950–51 he was general counsel and special adviser to the U.S. High Commissioner for Germany, and he has been professor of law at the Harvard Law School.

Dr. Geiger is chief of international studies, National Planning Association. He has been economist for the U.S. mission for economic affairs, U.S. Embassy in London, consultant to the House Select Committee on Foreign Aid (Herter committee), and most recently special assistant to the Deputy Administrator of the Economic Cooperation Administration.

I believe that this study paper should be extremely helpful to our subcommittee in its considerations and hearings to begin next week, as well as to other Members of Congress.

Sincerely,

HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

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FOREWORD

This report on "The European Economic Community and the United States" has been prepared at the request of the Subcommittee on Foreign Economic Policy of the Joint Economic Committee to assist it in its review of the foreign economic policy of the United States. As requested, the report attempts, in a reasonable compass, to analyze the implications of European integration and the Common Market for U.S. policy. In keeping with this purpose, it avoids details, and keeps statistics to a minimum.

Initially, the subcommittee requested two reports, one from the undersigned on "The Political Economy of European Integration: The Common Market, Free Trade Association, and U.S. Policy," and the second from Mr. Theodore Geiger, Chief of International Studies of the National Planning Association, on "U.S. Foreign Economic Policy and the Atlantic Community." Since separate reports would have overlapped materially, it was decided to combine the two topics into this single unified study.

Many people have contributed in various ways to preparing the report. Mr. Geiger was responsible for part IV, and contributed some of the material for part I, which was prepared by me. A valuable memorandum by Mrs. Miriam Camps was the basis for part III, on British entry into the Common Market, and provided much of the underlying material for part II, which also drew on a paper prepared jointly by Alexandre Lamfalussy and Louis Duquesne de la Vinelle. Their materials were also utilized for the related sections of part I. Jo W. Saxe prepared the material on the Associated States of the Community in appendix B. Prof. Raymond Vernon commented on an earlier draft of the report and prepared a revision of parts of it. H. van B. Cleveland gave valuable assistance in the editing of the entire report.

The authors are deeply indebted to these and others who read and commented on the report for their great assistance. None of them, of course, should be held responsible for the final content or conclusions of the report.

ROBERT R. BOWIE,
Director, Center for International Affairs.

HARVARD UNIVERSITY,
November 1961.

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CHART 1

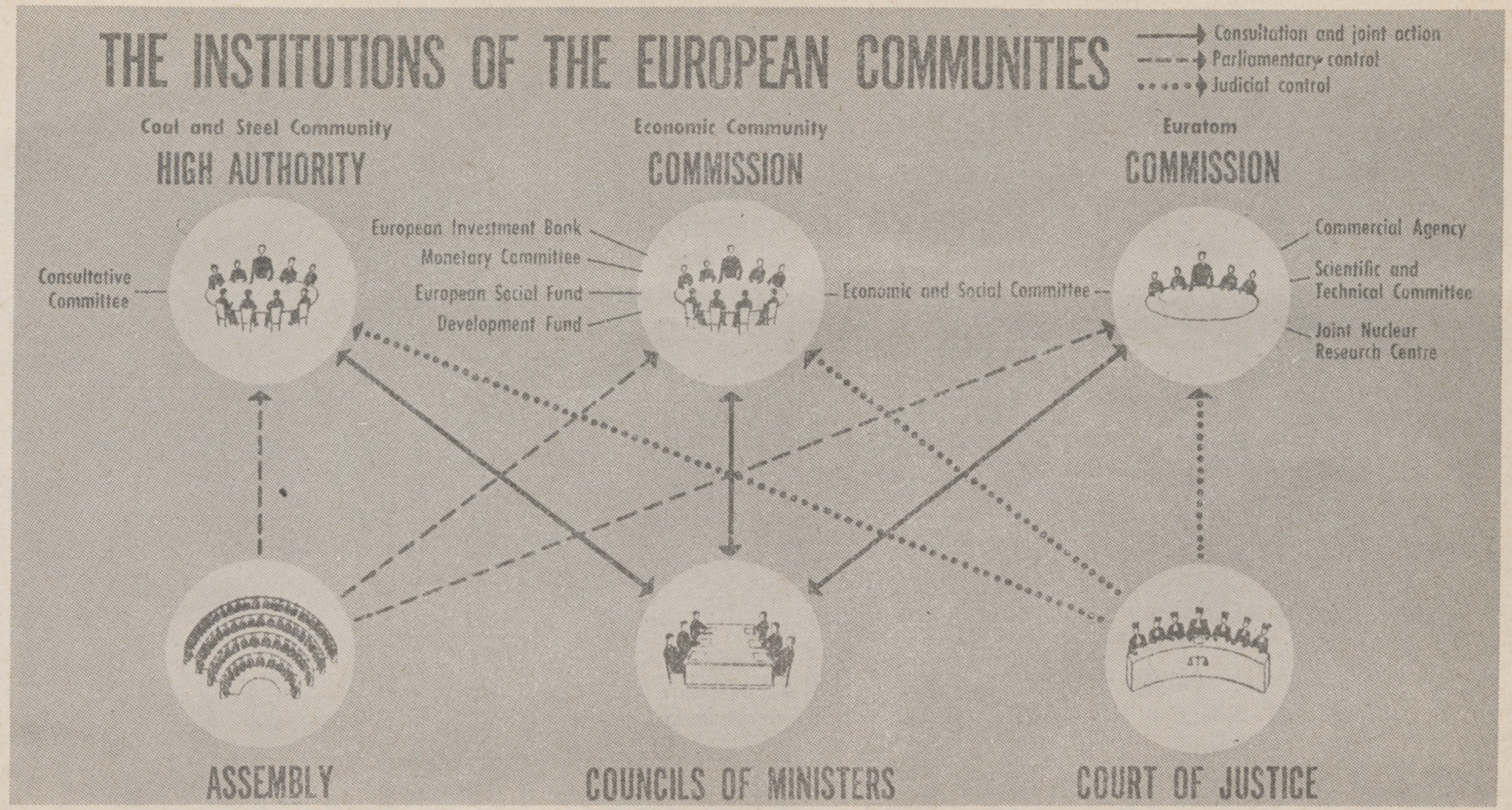
THE INSTITUTIONS OF THE EUROPEAN COMMUNITIES
Consultation and joint action
Parliamentary control
Judicial control
Coal and Steel Community
HIGH AUTHORITY
Economic Community
COMMISSION
Euratom
COMMISSION
Consultative Committee
European Investment Bank
Monetary Committee
European Social Fund
Development Fund
Economic and Social Committee
Commercial Agency
Scientific and Technical Committee
Joint Nucleur Research Centre
ASSEMBLY
COUNCILS OF MINISTERS
COURT OF JUSTICE

Chart 2


The European Community
The European Coal & Steel Community—established 1952
The European Economic Community (Common Market)—established 1958
The European Atomic Energy Community (Euratom)—established 1958
Norway
Finland
Sweden
Denmark
NORTH SEA
BALTIC SEA
U.S.S.R.
Eire
United Kingdom
Poland
Belgium
Germany (FEDERAL REPUBLIC)
Luxembourg
Czechoslovakia
ATLANTIC OCEAN
Austria
Hungary
Switzerland
France
Rumania
Yugoslavia
Bulgaria
Italy
Spain
AEGEAN SEA
Turkey
IONIAN SEA
MEDITERRANEAN SEA

INSTITUTIONS OF THE THREE EUROPEAN COMMUNITIES

(The Coal and Steel Community, the Economic Community, and the Atomic Energy Community)

The executive institutions are the High Authority of the Coal and Steel Community (1952), the Commission of the Economic Community (1958), and the Commission of the Atomic Energy Community (1958). Members are appointed by common agreement among the governments of the six nations. They are under obligation to represent the interests of the European Community as specified in the treaties and cannot act in the national interests of any one state.

The European Parliamentary Assembly is composed of 142 members elected from and by the Parliaments of the member nations. Each Community executive body must report to the Assembly. The Assembly has the power to oust any one of the three executives by a two-thirds vote of censure. Provisions in the treaties provide that the members of the Assembly may be elected by popular vote in the six countries at a later date.

The Court of Justice is a tribunal of seven judges from the six member nations, appointed for 6-year terms. The Court's jurisdiction is defined variously in each of the treaties creating the three Communities.

The Councils of Ministers represent the governments of the member states. Six ministers sit on each Council. The general function of the Councils is to harmonize the economic policy of each member state with that of the Communities. The powers and responsibilities of each Council vary according to the terms of the treaties.

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I. THE SIGNIFICANCE OF THE EUROPEAN COMMUNITY

The European Community could be a crucial turning point in the history of our century.

If it continues to develop, the Community can unify Europe's vast resources for common action at home and abroad, and can become a full partner of the United States in creating and defending a viable world order congenial to free societies.

The prospects for the European Community are encouraging. But whether they will be fully realized is not yet certain. The oldest of its three components—the European Coal and Steel Community—started operating as recently as 1952. With it, France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg launched the process of continental integration. In the decade since, integration has had major setbacks and notable successes. The movement faltered in 1954 with the failure of the ambitious European Defense Community and the companion Political Community. Yet less than 2 years later it revived when the same countries—"the Six"—formed the other two undertakings now making up the European Community. One is Euratom, concerned with atomic energy. The other is the European Economic Community (EEC) also known as the Common Market. Having come into effect only about 4 years ago, January 1, 1958, the Economic Community still faces serious obstacles before it will be fully realized. And further steps will be needed to make the European Community an effective entity for wider purposes.

Yet the movement for European unity displays striking vitality and capacity to overcome obstacles and defeats. They may have delayed integration but they have not stopped it; and the Common Market in important respects is well ahead of schedule. The reason for this vitality and persistence is that European integration responds to deep-seated needs of our times.

A. THE IMPETUS FOR INTEGRATION

Ours is a century of radical change in the world order. For four decades the order and structures inherited from the 19th century have been breaking up under the impact of nationalism, war, science and technology, and communism. The conflict with the Soviet bloc is a part of this process but only a part. That contest takes place in a world arena shaped by other basic forces. Indeed, its outcome may well turn mainly on the capacity to adapt to and cope with these forces.

In terms of industrial potential, trained people, and long tradition, Europe should be able to play a major part in meeting this challenge facing the West. The European Community is designed to enable Europe to play such a role.

The Schuman proposal in 1950 for the Coal and Steel Community must be seen in this perspective. At that time the central issues for the West were how to defend Europe from the Soviet military threat

and how to revive its war-torn economy. By 1950, NATO had come into effect for defense and the Marshall plan was well underway for recovery. But these measures, vital as they were, could not, without more, assure a stable, prosperous, and secure Europe. European integration was proposed as the essential means to this end. These aims have inspired and determined the successive concrete measures along the route: The Coal and Steel Community, the Common Market, Euratom.

The driving forces behind European integration have been both political and economic:

(1) A key motive was to end the historic Franco-German enmity. The aim was to forge bonds firmly tying Germany to Western Europe by offering her a place as an equal member in a united Europe and a challenging outlet for the vital energies of her people.

This concept embodied a radical reversal of policy toward Germany. In 1948, the three Western Powers had agreed to formation of the Federal Republic of Germany and its Government had taken office in the fall of 1949. But policy toward Germany was still based on restraining her power and actions, through the occupation regime of the Allied High Commission, the Military Control Board, and the International Authority to control the Ruhr industries and enforce ceilings on their output. Had these policies and controls continued, they might have reproduced the friction and hostility that followed World War I. The Soviet threat made it all the more urgent to heal the wounds on the Western side. European integration of coal and steel was designed to enable Germany to join in the constructive task of "building Europe" on a basis which buried the past.

(2) By 1950 many in Europe had come to see that even countries as large as France and Germany were too small to assure a dynamic economy and the full benefits of technology, scientific advances, and research necessary for industrial efficiency and growth. Moreover, in France and Italy especially, it appeared that stagnation due to the lack of competition and enterprise could best be overcome within a larger framework. Competition from outside might strike a spark which could not be ignited from within.

The idea of a wider European market had great appeal. On the experience of the United States it appeared to offer the prospect of stimulating economic dynamism which would raise living standards and enable industries to compete better on the world markets.

(3) The European nations, once their shattered economies had begun to recover, naturally wished to have a greater part in shaping their own destiny. Yet the rise of the United States and of the Soviet Union as superpowers now dwarfed even the major nations of Europe. A larger European entity was needed to mobilize and use the potential of Europe.

These various objectives tended to reinforce each other. Only if France and Germany could pull together could Europe hope to shape its own political and economic future. Only dynamic industries could expect to flourish within any common market and compete in the outside world. Growing economies would enable Europe to develop and mobilize the resources for prosperity at home and a greater role in the world.

European integration was put forward by its proponents as the best route to these objectives. Cooperation among governments, as

in the Organization for European Economic Cooperation (OEEC), was useful but not sufficient. The pursuit of these common purposes required some transfer of national authority to European agencies which were to exercise their powers in the interests of the whole community. A series of partial steps was to lead ultimately to a federal or confederal entity—a United States of Europe.

Undoubtedly, some who have supported the concrete steps have not necessarily shared this final goal. Even so, each of the practical measures has to some degree reflected the underlying conception of creating a European entity and not merely a form of cooperation among separate states. The High Authority of the Coal and Steel Community and the Commissions of Euratom and the Common Market share the duty to act for the Community as an entity in defining and pursuing common interests and common actions, just as in the still-born European Defense Community and the Political Community. This idea is central. It implies that there is a common European interest which should transcend the parochial interests of the members.

The other institutions of the European Community, based on a quasi-federal pattern, express the same conception. The Court, modeled on constitutional courts, is superior to the member states in applying the common rules; and the European Assembly is a symbol of European unity. The Council of Ministers is the one body where the members represent the governments. Its authority is substantial in all three treaties; it is greater in relation to the European Commission in the Common Market Treaty than in the earlier Coal and Steel Community. But even its decisions in various situations may be reached by less than unanimity—a sharp break with the intergovernmental tradition. Indeed, the European "federalists" saw the Council as the embryo of a future senate.

Its long-term political promise was certainly one of the major reasons for the persistence of the integration movement after the EDC defeat. But this political aspect was also a primary cause of the British refusal to take part. Britain had been among the leaders of European cooperation after the World War II. Indeed the main instruments for that purpose before 1950—the Brussels Treaty, the Council of Europe, the Organization for European Economic Cooperation (OEEC)—reflected the British concept of expanding cooperation among sovereign states, without definite political and institutional goals. The continental conception of a more organic kind of unification, whose ultimate goal is some form of supranational government, was uncongenial, even antipathetic, to most Britons.

This divergence between British and continental thinking about European unification had deep roots. Historically, as a seapower with farflung interests, the United Kingdom naturally has looked outward, away from Europe, and the pull of Commonwealth ties and remaining colonial commitments is strong. Unlike the continental peoples, the British did not suffer the humiliation of defeat and enemy occupation, and liberation by a non-European power—experiences which have done so much to bring into question among continental Europeans the validity of national sovereignty. The British, too, have sought to base their foreign policy on the premise of a special relationship with the United States. In all this there has been an echo of the traditional British policy of maintaining the

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European balance of power, which implied an aloofness from deep continental involvements.

Given such differences in experience and outlook, it was not surprising that British and continental strategies for unifying Europe should diverge, beginning with the proposal of the Schuman plan in 1950. During the following decade, the policies of Britain and the Six drew apart, as the European Community took shape in the Coal and Steel Community, Euratom, and the Common Market.

Even so, European integration contributed greatly to Western stability and strength in the 1950's. Most notably, it opened the door for Germany to return to Europe as a partner of France. The reconciling of France and Germany has been a major contribution of integration. It has succeeded so well that it is now taken for granted. While the effort in the European Defense Community to extend integration to defense proved premature, the new Franco-German relation which had developed by 1954 provided the essential basis for the alternative solution within Western European Union (WEU) and NATO. The phenomenal revival of Europe and the rapid rates of growth during the 1950's were due to many causes, but could hardly have occurred if the Western policies toward Germany had continued unchanged. And the idea of European integration gradually gained acceptance in wider circles both as a route to progress and an eventual goal. The speed with which the movement could be revived in 1956, after many had pronounced it dead, showed dramatically how deep were its roots.

B. TASKS FACING THE ATLANTIC NATIONS

The radical changes in international conditions over the last decade have enhanced the significance of the European integration movement even further.

The 20th century revolution has moved into a new stage. The undermining of the old world order has about run its course. The old empires have been totally dismantled with a few residual exceptions. The Soviet bloc has vastly increased its power and influence. Nuclear weapons are now available to both sides on a scale adequate to destroy each other. The challenge of the coming decades is to fashion a new order to replace the old.

The Soviet Union is dedicated to molding this new order in its own image. The Communist leaders are confident that history is working their way, that their concept of world order will inevitably triumph. Their confidence is not merely doctrinal. They see the strong forces of change as moving steadily in their favor. Conditions in the less developed nations offer them many tempting targets. The collapse of colonialism has launched scores of new nations—in Asia, Africa, and the Middle East—ill prepared for the staggering burdens of independence. Poor and illiterate, with too few trained people and weak institutions, with little capital and multiplying populations, they are impatient to build modern cohesive nations and to raise living standards. Communism will seek to exploit frustrations and disorder wherever they may occur.

The Western World cannot afford to underestimate the Communist threat, backed by growing overall strength. Today Soviet gross output is only about half our own but growing twice as fast; still it is

likely to remain lower than our own for several decades despite the boasts of Soviet leaders. Even so, the Soviet Union is more and more able to concentrate resources on selected purposes—on investment, armaments, foreign aid, or outer space—in amounts rivaling or exceeding those of the West.

There has also been a notable change in the military balance. Throughout the last decade the United States had a nuclear superiority to compensate for its lesser strength in conventional forces. But Soviet nuclear-missile capabilities are now creating a nuclear stalemate. The full effects of this situation are still unclear. The Soviet leaders doubtless understand the dreadful import of all-out nuclear war. So long as our deterrent remains "credible," they appear to prefer other methods of expansion, although not forgoing "wars of liberation" or other forms of limited aggression. To them "peaceful coexistence" is a form of struggle utilizing all available means except all-out war. With new assurance and growing power, the Soviet Union is pursuing a more active policy, aimed at dividing the Western nations and at exploiting the revolution in the less developed countries.

If they are to meet this challenge, the Atlantic nations must clearly understand its double nature. It involves much more than merely defending against the growing Communist threat. It also requires a creative response to our epoch—a positive concept of where we want to go and how to adapt to and build on the forces of change which are now at work. These purposes are obviously long-term in character. They cannot be completed in one or two decades.

In these circumstances, the Atlantic nations, with their predominant power, must play a crucial role in carrying out both the defensive and creative purposes. In discharging that role, they face five basic tasks:

First, they must assure the security of the non-Communist world through military strength and deterrence.

Second, they must foster economic growth, independence, and viable societies in the less-developed regions.

Third, they must work out a common approach for their political and economic relations with the Communist bloc.

Fourth, they must enhance the vitality of their own societies and economies in order to provide the resources for carrying on these tasks.

Above all, in order to perform them, the Atlantic nations must develop political ties and institutions adequate to insure unity of purpose and effort.

C. PROGRESS AND POTENTIAL OF EUROPEAN COMMUNITY

The progress of the European Economic Community to date has shown its potential for increasing the capacity of the West to perform these urgent tasks.

The Economic Community established by the treaty goes far beyond a customs union. After the transition period of 12 to 15 years, the six separate economic units will have been welded into a new economic entity characterized not only by freedom from trade barriers among its members, but by free movement for capital and labor, common policies for agriculture and transport, common rules for the conduct of economic life within the area, and common policies for many aspects of its external economic relations.

The progress toward these several objectives has varied according to their nature, as part II makes clear in detail. In reducing tariffs and quotas on trade among the members and in developing a common external tariff, the Community has thus far done extremely well. Not only have the Six fulfilled the schedule fixed in the Treaty of Rome, but they decided in May 1960 to speed up, by a year, the tariff cuts among themselves and the application of external tariff. In general they have taken more "liberal" decisions toward lower external tariffs than many expected.

On agriculture, the headway has been much slower: this now poses the most serious problem for the Community. For farm products the treaty contemplates a uniform market, free of trade barriers, but managed by the Community and largely insulated from the world market. The differences among the members on farm programs and levels of support create serious problems of adjustment for the Community. The first segments of the Community program are now up for decision and will have to be followed by working out the detailed measures. Powerful sectional and national interests may impede agreement; but failure or serious delays could imperil the Common Market.

The Community has made only limited headway in developing common policies in other fields. On the provisions to control cartels and other private restrictions, the Commission has done preliminary work and submitted to the Council of Ministers the first regulations. Initial steps have also been taken to remove restrictions on capital movements, on the right of residents in one member to establish businesses or supply services in other parts of the Common Market, and on the mobility of labor in the Community. A start has likewise been made in concerting action among the monetary authorities of the Six and in developing a common commercial policy.

In general, the European Community has enjoyed high levels of economic activity, trade, and growth since its formation. Trade within the Common Market has been expanding dramatically, and trade with the United States and the rest of Europe has also grown. The Community has been growing much more rapidly than the United States or Britain, expanding its share of world trade, and steadily building up its monetary reserves. (See tables I–A, I–B, and II, pp. 22–24.)

In part this prosperity reflects the continuation of economic stimuli which have been operating on the Continent for some years. But the Common Market has also clearly had its impact already. Since its formation trade between its members has increased even more rapidly than before. Businessmen of the Community and outside investors have been acting on the premise that a full customs union would exist within the Community by 1970 or earlier. They assume that the EEC will continue to expand at high rates. Their decisions on these premises will steadily reinforce integration.

The political development and consequences of the Economic Community are more difficult to appraise. The operations of the Community are doubtless less "supranational" than the European federalists would wish but the Commission plays a major role. While decisions rest more with the Council of Ministers than under the Coal and Steel Community and the Commission works closely with the member governments in developing its proposals, its treaty right to

submit proposals and its relations with the European Assembly enable it to put pressure on the members of the Community. Moreover, the Commission's proposals aim not merely to reconcile national policies, but to lay the bases for common policies for the creation of a new economic entity. This concept of building a strong new entity is crucial and is not questioned within the Community.

At French initiative, the Six have been considering ways to coordinate political and related policies, though differing on methods and perhaps objectives. Recently they agreed on steps that appear to go well beyond a coalition of national states toward the creation of coherent European power complex, carrying on from the activities of the existing Communities. Among the Six there are different views about the proper methods or institutions, with the French favoring a "union" led by closely cooperating states. The issue is still under debate, complicated now by the British request for adherence to the Community.

The British request to join is, in many respects, the strongest evidence of the growing political and economic significance of the European Community. The decision is a historic break with the long tradition of British policy toward the Continent.

In taking it, the British have decided to abandon the European Free Trade Area (EFTA) and to turn from the Commonwealth and from the hoped-for special relationship with the United States. British attempts to find some way of linking the EFTA Seven [1] with the ECE Six without full participation in EEC foundered on the fear that any such link would threaten, perhaps fatally, the Community's longer run political and institutional objectives. It thus became clear to the British that their full participation in the Community was the only course that would meet the political concern of the Six and of the United States; that the United States would be unlikely to oppose on commercial grounds; and that any French Government would find acceptable.

More basic reasons underlay the final decision. The success of the Common Market itself in helping to stimulate rapid growth rates in the Six was in striking contrast to the near stagnation of British productivity in the 1950's. To more and more people, entry into the Common Market seemed essential not simply to keep open this fast-growing market for British exports, but to obtain for the United Kingdom economy the stimulus of increased competition and of wider horizons. (See table III, p. 24.)

Political factors also had great—perhaps decisive—influence in inducing the move to join the Community. Foremost among them was the growing realization in Britain that, in a world where political and economic power were becoming so concentrated, a larger European unity was essential. Having suffered neither defeat nor occupation, Great Britain was inevitably slower than the Six in accepting the changed power situation in the postwar world. The relative decline of the United Kingdom in power terms has, however, been prominent in the recent public discussion about joining the Community. Its growing cohesion has underlined the prospect of a Britain overshad-

[1] The European Free Trade Association, formed under British leadership after the failure of the proposal to create a wider free trade area, includes Great Britain, Norway, Sweden, Switzerland, Austria, Denmark, and Portugal.

owed in the world's councils by this developing power complex. No doubt also the strong American backing for the Six forced many people to question whether any special relationship between the United Kingdom and the United States could survive under the new conditions.

But as in economic so in political terms: the British were motivated not simply by the disadvantages they saw for themselves in standing aloof but by the gains to be won by combining with the Six. Government statements and the recent debates in Parliament have shown that the vision of a strong, united Europe, of which the United Kingdom is a part, working in close and equal partnership with the United States, has begun to capture the British imagination.

Working out a mutually acceptable basis for British entry will not be easy. In applying to join, Great Britain has fully accepted the objectives of the Treaty of Rome and its institutions as they stand. Even so, solutions will have to be found for the difficult practical problems discussed in part III. They include:

(*a*) the problem of trade in foodstuffs (especially wheat, meat, and dairy products) from Australia, New Zealand, and Canada, which now enjoy free entry into the British market;

(*b*) the problem of trade in tropical agricultural products and raw materials, especially from the newer Commonwealth members;

(*c*) the problem of low wage manufactures from developing Commonwealth members;

(*d*) the problem of adjusting British agriculture and support methods to the Common Market program;

(*e*) the arrangements to protect the legitimate interests of other EFTA members who are unable to join the European Community.

Each of these poses complex issues which affect influential political interests within the Community, the Commonwealth, and Great Britain. Skill, patience, and compromise will be needed to resolve them. The negotiations appear to have begun in a constructive spirit which augurs well for their success. And none of the governments will want to take the responsibility for the serious consequences of failure for the position of the West.

If, then, the negotiations succeed and Britain joins, what will be some of the consequences for the Community, assuming some of the other EFTA members also join?

Just how far and how fast the integration of the Six would proceed without the addition of the United Kingdom and other members is today extremely difficult to predict, and their addition makes prediction the more hazardous.

The British Government today appears as ready as the French and German Governments to accept the full economic implications of the Common Market, and key British civil servants and ministers are aware that the implications may, over time, prove to be very far-reaching. The British Government is probably no more ready than is the present French Government for a federal European state. Among the public at large, the goal of some form of politically united Europe would probably be more widely accepted on the Continent than in the United Kingdom. Nevertheless, the British decision to seek to join the European Community was, fundamentally, a political decision and public awareness and acceptance of the consequences are growing rapidly.

The accession of the United Kingdom (and other European countries) is likely to slow down somewhat the implementation of the Treaty of Rome, for the process of assimilating new members will consume the energies of Community officials that might otherwise be directed to pushing on with the development of the Community. And various questions, such as a further acceleration of the formation of a customs union and certain aspects of agricultural policy may well be postponed until the outcome of the negotiations with the United Kingdom is clear.

Of more importance, the addition of the United Kingdom and other European countries to the European Community will somewhat change the character of the Community. The change will be, in part, simply a function of increasing the size and decreasing the homogeneity of the group. In part it will be the result of some redistribution of the balance of interest within the Community. In part it will be the result of the fact that the United Kingdom brings with it complex worldwide economic and political commitments, a different legal system, and a host of other institutional and historical differences.

It is clear, then, that the new Community will be a different animal both in economic and in political terms from the existing Community and that this change in character will have important consequences. For example, in economic terms, the consequences for the international financial structure if the Six were to adopt a common currency would be of quite a different order than would be the consequences if the Community, including the United Kingdom, were to adopt a common currency. Similarly, the fact that virtually all intra-European trade will now become "internal trade" has many important implications in terms of international trade agreements, such as the GATT.

In institutional terms as well, the addition of the United Kingdom and other countries will inevitably mean more than simply adding a few more members to the Commission and readjusting the voting arrangements. With nine members, the Commission is already large. If, as should be done, the three Communities (EEC, Euratom, and the European Coal and Steel Community) are merged at the time of British accession, some radical reorganization of the composition of the executive will, in any case, be needed. Moreover, the enlarging of the Community could result in more, rather than less, influence and authority for the central institutions than exists today, since this may well prove to be the only way to avoid an excessively cumbersome institutional structure. Since the smaller European countries have traditionally resisted concentration of power in the hands of the larger members, some increase in power of an independent executive may prove the only way to make the new machine work.

It seems clear, then, that what is in prospect is a new European complex potentially capable of exercising great economic and political power. But it is impossible to predict how soon it will organize itself so that it can act as a unit in its external relations and thus use its great potential power effectively.

D. PARTNERS FOR COMMON TASKS

An enlarged European Community creates both the need and the opportunity for common action and effective ties with the United States. As the new European entity emerges, the United States will

have strong reasons of self-interest to coordinate its policies closely with the Community in trade, investment, international monetary arrangements, and other economic fields. Beyond this, the United States will have a major national interest in the new opportunities for common action to meet the external challenges to the West.

In the past, Atlantic cooperation has often been strained by the unequal size of the United States and its partners in NATO and in OECD. The disparity has produced friction, ill feeling, and frustration. The European nations tend to feel that their views are not given sufficient weight or influence on policy and that their role is not in keeping with their traditions and their resources. The United States has often felt that the Europeans do not carry their fair share of the burdens of defense, economic assistance, and political direction. Moreover, the large membership of NATO and OECD severely complicates the concerting of policy and often delays or waters down required action. There is no way to solve these tensions and difficulties on the basis of the present numbers and disparity of capacity and resources.

An enlarged European Community offers a constructive answer. If it develops fast enough and well enough, the key industrial nations of Europe will form a new entity able to take common decisions, to mobilize its resources for common purposes, and to participate more actively in its own defense. As the members merge their economies and develop their capacity for acting as a unit, they will for the first time be able to play the role of an equal partner with the United States, sharing equitably in the responsibilities and burdens which have hitherto rested mainly upon this country.

Thus the European Community should not endanger Atlantic cooperation but facilitate it. Only if the European nations are able to carry their share of the load, to adopt common policies to influence the world, will there be the foundation for the kind of Atlantic relations which is required to face the challenge of the coming decades.

The European Community therefore offers an effective means to enable the developed countries of the West to join together in discharging their common obligations and responsibilities. In tandem, the European Community and the United States can work for the creation of a more viable world order which can accommodate the needs and interests of the less developed countries as well. Together they can assure the growth of their own economies, provide their own people rising standards of life, and help the less developed nations in the gigantic effort to modernize. And finally they can concert more effectively for military defense against Communist aggression and for a common political approach designed to bring about ultimate changes in Soviet purposes and objectives.

Fulfilling this promise of the European Community depends on three conditions:

First, the members of the Community will have to develop their readiness and ability to act as a single entity. This is, of course, implicit in their ultimate goal of European federation or confederation. The Community seems likely to progress gradually to that goal. Meanwhile, the members of the Community will have to concert their policies so as to deal with the United States—and with other countries—as a unit. In the shorter term, this means that the central institutions of the European Community, particularly the

Commission, must be given more power, and must develop the capacity to act on behalf of the members in their external relations. So far, the Six have made limited progress in this respect. More will have to be done once the United Kingdom and others have joined.

Second, the development of an effective and enduring bilateral partnership between the United States and the enlarged European Community is of fundamental importance. This partnership would cover the major economic, political, and military problems confronting the United States and the enlarged Community.

The two partners will have to work together much more intimately in these fields than in the past. NATO and OECD can serve as major instruments for such collaboration, if they are adapted to fit the new conditions. New agencies may ultimately be needed for coordination or joint action, but it would be unwise to try to blueprint them too early. For the first few years the two partners will have to learn better how to make the major adjustments required for working together more closely. Experience will help in defining the more formal ties or institutions necessary for the kind and degree of integration achieved and in prospect.

Third, the partnership must face outward toward the rest of the world. The building of their own resources and unity is valuable not merely for its own sake but to enable the Atlantic nations to discharge more effectively the crucial tasks facing them. On some matters mainly of interest to them, they will deal bilaterally with each other. But many problems also concern other nations and must be handled in ways enabling the others interested to participate. A close partnership of the two big Atlantic entities need not, and must not, prevent a broader community of nations willing to cooperate in the solution of common problems. Both are needed. The United States and the enlarged European Community must not be held back to what smaller or less industrialized countries are willing and able to do in the economic and political fields. Aside from other factors, the disparities in economic, political, and defense capabilities would preclude the degree of economic integration, of coordinated defense policies, and of joint political actions which should characterize the direct partnership of the United States and the European Economic Community. Yet the two Atlantic entities cannot develop their own relations or realize the opportunities for constructive progress throughout the world without arrangements for participation of other nations concerned. While there will always be tension between these two requirements, neither can be satisfied without the other.

Thus, the opportunity offered by the European Community imposes heavy obligations on both the Europeans and the United States to see that it does come into being as rapidly as possible, that it grows in strength and influence, and that the United States and the European Community are able to work together effectively in pursuit of common purposes and in the discharge of common tasks.

To achieve this the Europeans have much to do. They must first make certain that the momentum of the Community is not lost in trying to solve the serious problems relating to agriculture and other common policies. They will have to resolve the issues involved in British accession to the European Community. And finally they will

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have to take rapidly the steps necessary to enable the enlarged Community to act as a unit, especially in its external relations.

For its part, the United States also has important obligations. If the partnership is to be effective, the United States will have to adopt a realistic and constructive policy on its own trade barriers. It will have to equip itself for serious negotiations with the enlarged Common Market for a general reduction of tariffs and other obstacles to trade. It will also have to be prepared to join in common measures relating to monetary, agricultural, and general economic policy. It will have to foster a partnership in extending of assistance to the less developed countries. And it will probably have to recognize the desire of the Europeans for more adequate means for their defense in order not to feel themselves hostages of Soviet atomic power.

Above all, success of the European Community and of an Atlantic partnership will depend heavily on how the United States conducts its general foreign policy and handles the inevitable crisis such as Berlin. Any actions in the cold war which impair the confidence of a major European ally would be likely to damage or undermine the European Community—or else to turn the Community away from the United States.

In both Europe and in the United States, many of the necessary actions will require major changes in traditional attitudes and approaches.

The experience of European integration indicates that hard decisions about trade and monetary policy are more likely to be politically acceptable if they are clearly seen to be part of a broader national purpose. The fact that the Six were engaged in creating a European Community, in order to restore Europe's status in the world and bring major economic and social benefits to its peoples, was one of the decisive factors in winning acceptance for sacrifices involved.

As the Marshall plan showed, Americans are prepared to pay the costs of national policies which can be understood as part of a larger creative purpose. The actions necessary to complete the European Community and create an Atlantic partnership fully meet this requirement. If the historic import of that Community and partnership is made clear, they should evoke the necessary support both in Europe and the United States.

II. THE PROGRESS OF THE EUROPEAN ECONOMIC COMMUNITY

A. SCOPE OF THE TREATY OF ROME

Under the Treaty of Rome, which went into effect on January 1, 1958, the six member states undertake to create an economic community during a transition period of 12 to 15 years, divided into three stages. For this purpose they commit themselves:

(1) To remove tariffs, quotas, and other barriers to trade within the Community by gradual stages;

(2) To create a uniform external tariff between the Community and the rest of the world, and to act as a unit in negotiating on external commercial policy with others;

(3) To abolish restrictions on the movement of services, labor, capital, and business enterprises within the Community;

(4) To allow colonies and associated territories of the Six (mainly in Africa) to link themselves to the Common Market, extending the benefits of the Common Market to their exports, while allowing them to maintain restraints on imports;

(5) To prohibit private cartels and other restraints on trade unless they foster the improving of production or distribution or technical and economic progress;

(6) To coordinate monetary and fiscal policies in order to promote balance of payments, high employment, and price stability in each member country;

(7) To establish a common agricultural policy within the Community;

(8) To create an Investment Bank for Europe and a Development Fund for Associated Overseas Territories to transfer capital to the less developed parts of the Community and to dependent or associated areas;

(9) To equalize wages for men and women and harmonize methods of computing overtime; to undertake to improve and harmonize living and working conditions within the Community;

(10) To create a Social Fund to finance retraining, resettling, or otherwise assisting workers harmed by liberalizing trade within the Common Market.

To carry out its provisions, the treaty establishes institutions patterned on the earlier Coal and Steel Community. The executive body is the Commission, composed of nine members chosen by the member states. They are responsible to the Community as an entity and not to any member state. Assisted by a large staff, the Commission prepares recommendations for the Council of Ministers, and also decides certain matters itself as provided in the treaty. The Council of Ministers, with one representative from each state, "coordinates" general economic policies of members and decides important issues arising in creating and maintaining the Common Market.

The Court, which is also "supranational" (independent of the states) decides disputes arising under the treaties for all three Communities. The Assembly, with delegates from the Six Parliaments, also serves all three Communities, reviewing and debating proposals and problems, and with power to remove the Commission by two-thirds vote. In addition, a large Economic and Social Committee, and a compact Monetary Committee are established to advise the Commission and Council of Ministers.

The Economic Community which will result from implementing the provisions of the treaty will go far beyond a simple customs union. Yet the treaty does not make full economic union an explicit objective, and from the start there have been differing views within the Community about how complete an integration was being or should be sought. Some Europeans believe that in the modern world the role of governments in economic life is so pervasive that the formation of a customs union and the renunciation of the right to resort to protective devices, such as tariffs and quotas, must necessarily lead the member states to far-reaching coordination of their social, monetary, fiscal, and other economic policies. In this view, whatever the formal provisions of the treaty or the intentions of its draftsmen, the result will eventually be a full economic union, which will require a high degree of political unity. For others, this sequence of events does not appear inevitable and the degree of integration achieved is thought to depend more on the intentions of the member states.

The differences of view also relate to what outcome is politically desirable. Many people within the Community look upon the Treaty of Rome mainly as a step toward a supranational federal government, a United States of Europe. Others see it as an economic program, more an end in itself than a means to political union, and envisage political relations among the Six developing on cooperative bases.

B. PROGRESS IN CREATING THE EUROPEAN ECONOMIC COMMUNITY

1. Creating the Customs Union

The removal of tariffs and quotas on trade between the member countries and the establishment of a common external tariff are the most visible aspects of the process of economic integration, and the Six have been highly successful in carrying out these provisions of the treaty. Not only has the timetable laid down in the treaty been fully respected, but by a decision taken in May 1960, the six Governments have accelerated the pace. On trade between the member countries, the first 30-percent tariff cuts were made a year ahead of the treaty schedule, by the end of the third year instead of the fourth. On agricultural products the tariff reductions were more limited, ranging from 20 to 25 percent. The Commission has proposed a second acceleration which, if adopted, would mean a total cut of 50 percent by the end of the first 4-year period. At present, however, the decision on this proposal is in doubt, mainly because of difficulties in reaching agreement on a common agricultural policy.

The common external tariff has been worked out except for manufactured tobacco and petroleum products, and the first steps toward bringing it into effect were taken in July 1960, 18 months ahead of schedule. Since December 31, 1960, the members have raised or lowered their national duties to reduce the differences between them and the common external tariff by 30 percent.

The periodic increases in quotas which the treaty requires have been accomplished without difficulty, except in the agricultural sector, and have also proceeded more rapidly than the treaty envisaged. This speedup has been largely a byproduct of the reestablishment of convertibility and the recognition of the obligations undertaken in the GATT and elsewhere to remove quotas as quickly as permitted by balance-of-payments conditions.

In short, the customs union provisions of the treaty have been carried out smoothly and well ahead of schedule. Only a few technical violations of the tariff and quota provisions of the treaty have occurred and these are mostly in process of correction. The fears of third countries when the treaty was being drafted that the members might postpone the formation of the customs union by excessive use of the escape clauses have proven groundless.

At the time the treaty was being negotiated, another concern was that the Community might prove to be inward-looking and protectionist. Again the record to date is reassuring. Under the treaty, the common external tariff was to be based on the average of the national tariffs, except for certain sensitive items (specified in "list G" appended to the treaty) for which duties were to be agreed. The Six have now fixed generally lower external tariffs for the list G commodities than had been expected, and in general have shown a considerable willingness to reduce the external tariff. In May 1960, when the tariff timetable was speeded up, the Six agreed provisionally to reduce the external tariff by 20 percent and have used this as the basis in taking the first steps to conform national tariffs with the common tariff. Whether this 20 percent reduction will be fully achieved depends on the outcome of the current GATT negotiations and on the willingness of other countries, especially the United States, to make reciprocal tariff concessions.

2. Developing a common agricultural policy

Progress has been understandably slower in carrying out those sections of the treaty that go beyond the removal of trade barriers and call for the formulation and adoption of common economic policies. The biggest problem now confronting the Community in this area is to work out a common agricultural policy.

The main problem of European agriculture is not so much chronic overproduction as in the United States, but poverty. Too many people are living at low standards on uneconomically small farms. The number of male workers in agriculture in the six countries of the Common Market is about 12.5 million—twice as many as in the United States. With a total cultivated area of about 70 million hectares,[1] the average amount of land per male worker is only 5.6 hectares, hardly one-twelfth as much as in the United States. In the Community as a whole, the average farm is under 8 hectares. More than 50 percent of the cultivated area consists of farms of less than 20 hectares (regarded as a technical minimum), and there are about 5.5 million farms of less than 5 hectares.

Thus Europe's agricultural problem can be solved only by a large transfer of the agricultural population to other economic activities. So basic a change in economic structure will take many years. Millions of new jobs must be created outside of agriculture and housing

[1] A hectare is equal to about 2.5 acres.

must be provided for migration on such a scale. Even when this is done serious obstacles will remain: older peasants are rarely adaptable to a new type of employment, and technical progress in agriculture would be crippled if most young workers moved out.

Meanwhile the continental governments have to maintain a suitable parity between agricultural and other incomes. As net importers of most important products, the Six have been able to do this by raising agricultural prices through import restrictions. The governments also resort to Government sales and purchases to establish price levels and prevent price fluctuations. In some cases, limits are imposed on acreage planted and surpluses are bought by governments for sale abroad.

The member governments have not been equally generous in their price policy for agriculture. On the average, German prices, which are the highest, exceed French prices, which are the lowest, by about 20 percent; Italian and Benelux prices are in between. This was the situation on the eve of the Common Market.

Although the general rules for removing tariffs and quotas apply in principle to agriculture, other measures of protection are permitted to control trade in agricultural products within the Common Market during the transition period, and to regulate trade between the Six and other countries indefinitely. After the transition period, the market for farm products within the Community will be free of tariffs and quotas, but it will be a managed market, with prices to farmers maintained at agreed levels by Community intervention. For many farm products, it will be effectively insulated from world markets.

France, Italy, and the Netherlands are major exporters of farm products to the other members of the Community, and they have accordingly pressed for freeing trade in farm products along with the progress in the industrial sector, and for a start toward the alinement of agricultural prices among the Six, which is the essential precondition of freer trade. Early this year, the Commission submitted to the Economic and Social Committee, to the Parliamentary Assembly and to the Council of Ministers, detailed proposals for the main agricultural products. The lynchpin of the Commission's plan is an agreed "European price" for each commodity covered. The European price will determine the charges or duties the members may levy permanently on imports from outside the Community and, during a transition period, on agricultural imports from each other. The Council of Ministers will probably make its decision on the plan within the next few months.

The first, and perhaps the most important, decision to be made is the European price for wheat. Although French wheat prices exceed world prices, France is the low-cost wheat producer and Germany the high-cost producer within the Community. The European price proposed by the Commission is somewhat below the present German price, and the German Government has not yet accepted it. Until the European price for wheat is agreed, progress in making a common agricultural policy is blocked. With the German elections now over, the Government should have more freedom to act and the logjam may soon be broken.

The difficulties encountered in agreeing on a European price for wheat show how difficult it will be to work out the detailed agricultural program. Yet the Six know very well that failure to make rapid

progress could imperil the Common Market. Already the French and the Dutch are resisting further speeding up of industrial tariff cuts and may oppose moving into the second stage of the transition period, unless some real headway is made on agriculture. Hopefully, the high stakes involved in solving the agricultural issue will make agreement possible.

The external effects of the Community's program for agriculture will depend mainly on what European prices are fixed. If high prices are set, imports from the rest of the world will be reduced. Farming interests in the Community can be expected to press for European prices substantially above world prices and to resist expansion in imports from outside. Moreover, the European price-levy system and efforts to increase productivity in agriculture will stimulate farm production within the Community and reduce demand for imports from other countries. At the same time, with British accession, the enlarged Community will be more dependent than the Six on imported foodstuffs, and this may provide an opportunity to review its thinking about agriculture.

3. Progress under other treaty provisions

(*a*) *Control of private trade restraints.*—The treaty recognizes that removal of trade barriers will not be effective in freeing trade if the market is restricted by cartels or similar private agreements among firms. Accordingly, it prohibits agreements between enterprises which restrict or distort competition, with provision for qualified exceptions for agreements which improve productivity or promote technical or economic progress without substantially eliminating competition. The treaty provides that the Council is to adopt regulations applying these principles within the first 3 years.

Progress in implementing these provisions has been limited, though much preliminary work has been done. The Commission has been quietly examining arrangements, both public and private, that might violate the treaty. At the same time, the Common Market has greatly stimulated arrangements among firms within the Community, especially across national boundaries. Some of these agreements undoubtedly contribute to greater specialization and a desirable rationalization of production, but the spectacular growth of industrial associations of all shapes and sizes may also produce undesirable restrictions.

A proposed regulation endowing the Commission with necessary powers of investigation and compulsion—in particular, the power to compel enterprises to give notice of existing agreements as well as new ones—was submitted to the Council of Ministers in October 1960. It has been discussed in the Social and Economic Council and in the Parliamentary Assembly. The decision of the Council of Ministers is pending.

(*b*) *Establishment, services, and capital.*—Under the treaty, citizens or firms of any member state will be entitled to carry on business without discrimination anywhere in the Community by the end of the transition period. Similarly, nationals of any member state are to have the right to supply services (other than public services) within the Community without discrimination based on nationality. "Services" includes a wide range of activities, such as transportation, repair and assembly operations, technical assistance, brokerage, adver-

tising, and banking and insurance operations. Restrictions on the "freedom of establishment" and the freedom to supply services are to be progesssively removed during the transition period.

As the treaty could not settle in detail the steps leading to complete freedom in these fields, it provided that the Commission would prepare a general program for this purpose. The Commission has now submitted a program to the Council, and a favorable decision by the Council is expected soon, except with respect to certain difficult items, mainly in the field of transportation. This program, however, prescribes only a timetable, an order of priorities, and an outline of what is to be done. Detailed application requires specific directives from the Council.

Progress has also been made in establishing the common capital market prescribed by the treaty, action which was greatly facilitated by the stabilization of the French franc at the end of 1958. In May 1960, the Council of Ministers approved the removal of restrictions on a number of capital transactions: those connected with movement of goods, services, or persons, with the exercise of the "right of establishment," or with the sale of stocks traded on exchanges. Transactions in over-the-counter stocks and new issues were liberated only insofar as the member concerned does not consider it incompatible with its economic policy. These are important steps, but the Community is still far from having a complete common market for capital transactions. Further progress may be impeded by the reluctance of central banks to reduce their influence in the capital market.

The treaty also creates a European Investment Bank whose task is to contribute to the financing of "projects of common interest" and investment projects in the less developed regions of the Community. Total loans made so far equal about $150 million, mostly for financing new plants in southern Italy.

(*c*) *Free movement of labor.*—The treaty provides for progressive removal of restrictions on the movement of workers within the Common Market. By a regulation already adopted by the Council, domestic labor's preferential position over foreign workers has been reduced; migrant workers will be able to acquire the same status as domestic workers after 4 years of residence; and national administrations are to cooperate closely to bring about balance between labor supply and demand within the Community. Two other regulations aim at harmonizing national social security systems so that migrant workers will not lose rights or benefits when they move from one member state to another.

The European Social Fund prescribed by the treaty has been established. Its main purpose is to redistribute among the member governments part of their expenses in financing training centers and paying resettlement allowances to workers. At the suggestion of the Commission and with the help of the European Social Fund, the Italian Government has started an initial program of special training for 10,000 Italian workers wishing to take employment in Germany and the Netherlands.

(*d*) *Coordination of monetary and commercial policy.*—The treaty recognizes that freedom of trade can be maintained only if national monetary and fiscal policies are coordinated to avoid balance-of-payments difficulties which might induce the reimposition of trade barriers. But the Treaty of Rome does not create a European

monetary agency. Instead, it relies on cooperation among national authorities. The principle underlying these provisions of the treaty is that each member state shall consider its fiscal and monetary policies and its foreign exchange rate as matters of common concern.

The treaty provides for a Monetary Committee whose task is to report to the Council of Ministers on the monetary and financial situation of member states and to "formulate opinions" thereon. The Monetary Committee is a purely advisory body, but it has proved to be a convenient meeting place for higher government and central bank officials. It meets fairly regularly and informal consultations among the central bankers and finance ministers are also frequent, but there is as yet no common policy in the monetary field.

Outside pressures have forced the Community to move more quickly toward a common commercial policy. The negotiations in the GATT, the negotiations with Greece for association with the Community, and the discussions in the OECD and the GATT on textile problems have imposed on the Six the need for common positions. Moreover, they have agreed that no commercial treaties will be concluded with third countries which would last beyond the transition period prescribed by the treaty, and that all commercial agreements will be discussed with the Commission before signature. Nevertheless, commercial relations of the members with other countries have not yet been greatly modified.

(*e*) *The Associated States.*—The former French and Belgian possessions in Africa and a few other former colonies of the Six are now associated with the Community. The form of their association is provided in outline in the treaty and specified in more detail in an implementing convention. It includes special trade arrangements between the Associated States and the Six. The Six are required to extend to the Associated States the increases in quotas and the reduction of tariffs that apply on intra-Six trade. The Associated States, in principle, will liberalize in the same way their trade with the Six, but since they are underdeveloped countries, it is recognized that they may need to have tariffs for protective and revenue purposes. Accordingly, they are permitted to do so, provided they apply the same tariffs to all the members of the Community. Thus they are no longer permitted to give preferential treatment to the former mother country.

The common external tariffs of the Six for tropical products are fairly high and when the preferences become effective, will create a substantial preference for tropical products exported from the AS to the Community. This preference is of doubtful validity under the GATT and has been the subject of considerable criticism by other countries, particularly in the Commonwealth and Latin America. There has been some pressure, particularly from the French Government, for a more rapid creation of the preference in favor of the overseas territories by bringing the Common Market tariff on certain tropical products into effect more quickly.

More recently, the fact that many of the Associated States have become independent has brought the whole basis and nature of their relationship with the Community into question. Except for Guinea, the Associated States that have gained independence have indicated a desire to continue their association for the time being, but the question of its nature is now being reexamined. The convention defining

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the terms of association expires on January 1, 1963, and may be substantially modified when it is renewed.

C. ECONOMIC EXPANSION IN THE COMMON MARKET

The Common Market has enjoyed high levels of economic activity, trade, and growth since its creation. As shown in table I, not only has trade among the EEC countries increased dramatically in the last 3 years, but trade with the United States, with other European countries, and with the rest of the world has also increased, though less impressively.

TABLE I–A.—*Expansion of trade in EEC and EFTA*

[1953=100]

	Imports from—											
	EEC			EFTA			United States			World		
	1958	1959	1960	1958	1959	1960	1958	1959	1960	1958	1959	1960
EEC	171	204	256	144	155	178	177	158	242	154	163	198
Belgium-Luxembourg	156	173	202	110	122	132	125	131	155	130	143	164
France	184	204	277	118	107	124	146	111	193	142	129	159
Germany	198	257	316	198	225	256	254	235	360	195	225	268
Italy	130	170	247	125	130	162	163	119	213	133	139	195
Netherlands	172	198	235	126	141	156	174	184	254	153	166	191
EFTA	166	179	210	124	133	153	148	152	218	126	135	156
Austria	241	270	331	169	189	241	154	111	149	197	209	259
Denmark	133	166	195	118	134	145	271	336	389	136	160	180
Norway	171	171	178	138	133	152	115	118	158	144	145	160
Portugal	176	173	194	136	129	142	103	88	121	145	143	164
Sweden	167	168	196	139	141	169	198	200	280	150	152	182
Switzerland	172	197	234	124	163	171	134	138	174	145	163	190
United Kingdom	153	161	190	111	119	141	139	146	223	112	120	138

	Exports to—											
	EEC			EFTA			United States			World		
	1958	1959	1960	1958	1959	1960	1958	1959	1960	1958	1959	1960
EEC	172	204	256	154	168	202	161	230	218	162	179	211
Belgium-Luxembourg	158	175	219	108	116	132	123	190	156	135	146	167
France	152	204	273	94	104	138	166	254	216	135	148	181
Germany	182	207	255	196	214	259	216	305	301	201	223	260
Italy	205	270	363	172	195	230	170	239	268	171	193	242
Netherlands	175	208	241	170	177	200	106	122	116	149	168	187
EFTA	145	156	175	124	134	154	140	180	164	131	139	152
Austria	182	189	225	120	140	175	136	173	148	171	180	208
Denmark	201	212	209	110	122	136	197	241	229	144	156	166
Norway	179	186	200	146	165	200	116	145	103	146	159	173
Portugal	165	153	163	128	128	169	67	78	100	132	133	148
Sweden	151	159	189	141	143	170	122	176	164	141	149	173
Switzerland	138	153	176	142	152	176	77	95	94	129	140	156
United Kingdom	122	134	148	113	123	135	171	222	198	124	130	139

Sources: OEEC statistical bulletins, foreign trade, series 1, 1928, 1937–53; and series A, June 1961; U.N. Monthly Bulletin of Statistics, June 1961; Office Statistique des Communautés Européennes, foreign trade, monthly statistics, 1961, No. 6.

TABLE I–B.—*Network table of trade between EEC and EFTA, in 1960*

[Imports (c.i.f.) in 1960, million U.S. dollars]

Importers/exporters	EEC	BLEU	France	Italy	Germany	Netherlands	EFTA	Austria
EEC	$10,134	$1,901	$2,056	$1,070	$3,295	$1,813	$4,509	$536
Belgium/Luxembourg	1,867	X	531	95	653	587	545	23
France	1,848	372	X	253	990	233	557	20
Italy	1,317	116	400	X	674	126	775	180
Germany	3,026	581	951	627	X	867	1,999	274
Netherlands	2,076	830	174	95	977	X	633	39
EFTA	6,567	575	984	789	3,141	1,079	3,731	135
Austria	800	23	52	114	566	45	171	X
Denmark	708	72	77	36	412	109	649	11
Norway	480	43	47	23	284	83	545	9
Portugal	208	32	45	20	93	18	108	3
Sweden	1,153	111	113	84	619	225	701	29
Switzerland	1,364	98	281	234	658	93	255	48
United Kingdom	1,854	194	367	277	509	507	1,303	33
United States (f.o.b.)	2,258	362	395	395	894	212	1,637	49
World [1]	29,729	3,745	6,867	3,670	11,420	4,028	18,533	1,120

	Denmark	Norway	Portugal	Sweden	Switzerland	United Kingdom	United States	World
EEC	$419	$237	$84	$875	$809	$1,549	$3,827	$29,613
Belgium-Luxembourg	16	19	11	113	72	290	387	3,889
France	29	29	13	108	127	230	745	6,282
Italy	71	30	14	91	139	251	672	4,747
Germany	275	129	37	429	387	466	1,423	10,164
Netherlands	27	29	8	134	84	311	600	4,531
EFTA	624	407	77	940	344	1,204	2,641	23,081
Austria	9	8	2	20	61	70	104	1,416
Denmark	X	59	6	176	55	342	175	1,795
Norway	60	X	3	231	21	219	123	1,460
Portugal	2	3	X	13	21	65	40	544
Sweden	121	110	10	X	54	376	356	2,874
Switzerland	20	9	5	40	X	133	254	2,234
United Kingdom	411	217	51	459	131	X	1,589	12,758
United States (f.o.b.)	100	88	38	170	196	996	X	14,652
World [1]	1,462	879	325	2,565	1,883	10,297	20,299	[2] 130,735

[1] Exports f.o.b. to world.
[2] Excluding Albania, China (mainland), North Korea, and North Vietnam.

NOTE.—Details may not add to totals due to rounding.

Source: OEEC statistical bulletins, "Foreign Trade," series A, "Overall Trade by Countries," June 1961.

It is, of course, impossible to determine with any precision how far this prosperity is due to formation of the Community and how far to the continued effects of the favorable economic forces which have been at work over the last decade. Yet it is surely significant that the Six as a group have been growing faster than the United States or the United Kingdom, that they have been earning steady surpluses on external account, and that their share of world trade has been expanding. From 1950 to 1953, the total gross product of the Six increased by 18 percent in real terms; that of the United States by 16 percent; that of other European countries by 10 percent. From 1953 to 1960, the EEC area's total product grew 45 percent, while that of other European countries, including the United Kingdom, expanded by 26 percent, and that of the United States by only 15 percent. In per capita terms, the contrast between

the United States and the Community during the 1953–60 period is even greater: per capita output rose by 36 percent in the Community as compared with only 6 percent in the United States. (See tables II and III.)

TABLE II.—*Growth in gross national product and investment in the Six, United Kingdom, and United States*

[1954=100]

(a) GROSS NATIONAL PRODUCT AT MARKET PRICES

	At current prices				At 1954 prices			
	1957	1958	1959	1960	1957	1958	1959	1960
Belgium	121	121	124	(1)	111	109	111	(1)
France	132	151	163	179	118	120	122	130
Germany	137	146	159	176	126	130	138	149
Italy	127	136	145	158	118	123	133	142
Luxembourg	129	128	130	(1)	115	117	119	(1)
Netherlands	131	134	143	(157)	115	116	123	(133)
United Kingdom	122	128	133	140	107	108	111	116
United States	122	122	133	(138)	112	110	118	(1)

(b) GROSS DOMESTIC FIXED CAPITAL FORMATION

Belgium	137	130	136	(1)	116	111	115	(1)
France	152	169	177	190	135	138	139	147
Germany	142	153	174	202	128	136	151	169
Italy	140	142	154	180	130	132	146	167
Luxembourg	132	132	133	(1)	121	122	122	(1)
Netherlands	159	145	161	185	133	119	134	153
United Kingdom	132	137	144	158	115	116	123	135
United States	128	120	134	(1)	112	104	113	(1)

[1] Not available. Figures in parentheses are estimates by OEEC Secretariat.

Source: OEEC, General Statistics, July 1961.

TABLE III.—*Growth in productivity in EEC, EFTA, United States, Canada, and Japan*

GROWTH OF OUTPUT OF LABOR FORCE 1950–58

Country	Growth of output	Growth of labor force	Growth of output per worker	Productive investment ratio [1]
	Percent per annum	*Percent per annum*	*Percent per annum*	*Percent*
Japan	7.9	2.4	5.5	16.8
Germany (Federal Republic)	7.4	2.1	5.3	13.0
Italy	5.5	1.0	4.5	12.6
Netherlands	4.5	1.2	3.3	14.5
France	4.3	.6	3.7	11.6
Canada	4.0	2.2	1.8	14.2
United States	3.3	1.0	2.3	9.7
Norway	3.0	.4	2.6	21.0
Belgium	2.9	.3	2.6	9.0
Sweden	2.9	.4	2.5	11.8
Denmark	2.3	.4	1.9	12.4
United Kingdom	2.2	.9	1.3	9.9

[1] This is the ratio of gross fixed domestic capital formation, exhibitive housing, and Government capital outlays to gross domestic product in terms of constant prices.

Source: Financial Times, July 31, 1961.

The rapid growth of the Six is the more striking because accompanied by a steadily improving balance of payments. For the area as a whole, 1950 was the last year when the external balance on current account showed a deficit. For the 1951–55 period, the average

annual surplus on current account was about $1 billion. It reached $2.1 billion during the years from 1956 to 1960. In 1959 and 1960 it was over $3 billion. After 10 years of surpluses, the Six are now the region with the highest (net) gold and foreign exchange reserves relative to foreign trade.

The Community's share of total world trade also rose continuously throughout the 1950's. From 16 percent in 1950, it reached 26 percent in 1960, while the shares of the United States and the rest of Europe remained constant at 18 percent and 17 percent. The European Community has become the largest exporter in the world.

The rapid increase in intra-area trade, the high rate of growth, and the favorable external balance of the Community greatly facilitated the removal of tariffs and quotas and economic integration generally. Moreover, the Common Market itself is clearly creating new stimuli for dynamic growth. Removal of tariffs should weed out inefficient producers in favor of high-productivity plants or areas. To meet increased foreign competition or to invade new markets, firms may be expected to invest and rationalize beyond what they would have done.

Indeed, the decision to form a Common Market and the first steps in this direction have already had an invigorating effect on trade and industry. Within the Common Market trade has increased more rapidly than before formation of the Community and more rapidly than external trade. For the past 3 years, industrialists within the area and outside investors as well have based their planning on the assumption that by 1970 or sooner the Six would be a full customs union. The last doubts on this score were dissipated when the French franc was devalued and the first dismantlement of trade barriers took place on schedule. Thus the full removal of barriers to the intra-Community trade has already been largely anticipated by industry. It is significant, too, that pressure for the first acceleration of tariff cuts, and now for a second acceleration, came primarily from the industrialists.

The Community has proved to be a strong magnet to British and American investors. The attraction lies partly in getting within the common tariff wall, and partly in the fact that the Community is one of the fastest growing markets in the world.

Thus industry in the Community and elsewhere has acquired a vested interest in rapid creation of the Common Market. Among businessmen in the EEC and American firms doing business in the Common Market there is a growing conviction that the trends of the last 3 years can safely be projected into the future. They seem to take it for granted that the economy of the Community will continue to expand rapidly and that trade barriers will be removed on schedule. Their decisions on this basis will steadily reinforce the process of integration.

Much will depend on how long the present boom in continental Europe lasts. If demand should weaken, expansion falter, and excess capacity emerge during the next 2 or 3 years, the Common Market may run into trouble. But if prosperity continues, the removal of trade barriers and the strengthening of common institutions should generate the dynamic forces and the common interests necessary to assure the success and permanence of the European Community.

D. INSTITUTIONAL AND POLITICAL DEVELOPMENT OF THE COMMUNITY

1. Institutions

Although the Community has been accepted as an economic reality sooner than many people had anticipated, its institutions have developed rather less supranationally than many had hoped. The Commission certainly has more, and more substantial, powers than a conventional international secretariat, but for most matters the power of decision resides in the Council of Ministers. Furthermore the Commission, like the High Authority of the Coal and Steel Community, has found that progress is made more rapidly and more effectively if there is almost continuous consultation between the staff of the Commission and experts and officials from the national governments.

A mixed kind of operation with elements of supranationalism and elements of conventional intergovernmental negotiations has thus evolved in the Community. The Commission is the initiator of new proposals in the fields covered by the treaty, but at a fairly early stage and thereafter almost continuously, the Commission works closely with the national governments in perfecting its proposals; it seldom confronts the Council of Ministers with plans which have been worked out by the Commission staff entirely independently of national governments. Mixed committees drawn in part from the national governments are today the rule rather than the exception.

Although the method of work is thus rather different from that envisaged by the European federalists, it would be a mistake to underestimate the role of the Commission. Because of its right to propose, a right enshrined in the treaty, it can be and is an effective goad on governments. Through its right to have direct recourse to the European Parliamentary Assembly and the public it can and does appeal over the heads of the governments to the European sentiment that is strong in all six countries. Moreover, the Commission's proposals are based on a concept of its function which is fundamentally different from that operating in most international organizations. They are not designed merely to reconcile national positions. They are, rather, designed to lay the basis for common policies—policies which are not merely the least common denominator of national positions, designed to preserve separate national entities in a state of peaceful coexistence, but rather policies whose aim is to create a new economic entity. This is a fundamental point and one which is not challenged within the Community.

2. Political developments

Many of the founders of the Community hoped that the process of economic integration would lead first to full economic union and ultimately to political federation. The three Communities (ECSC, Euratom, and the EEC) were considered to be the embryo of a federal government of a United States of Europe. More recently, however, supranationalism has less general support, especially in France, and political discussions about European unity among the Six have revolved around the proposals for political consultation initiated by General de Gaulle about a year ago.

General de Gaulle has made it abundantly clear that his concept of the unity of Western Europe is based on the coordination of policies by sovereign national states, a "Europe des Patries," not on a pooling

or merging of sovereignties. Apparently he wished to revise the Coal and Steel Treaty to reduce the powers of the High Authority to parallel those of EEC Commission and to move the Community further from supranationalism. The suggestion was stongly resisted by the rest of the Six, and when General de Gaulle made a formal proposal to his partners for further steps by the Six to coordinate policies in the political, defense, and cultural fields, they did not include the idea of modifying the existing treaties. Nevertheless, the institutional pattern envisaged was an intergovernmental council whose deliberations would be prepared by the conventional kind of secretariat drawn from member governments.

De Gaulle's idea was received with considerable skepticism by the other member governments. They feared that underlying the proposal for coordination by the Six in the defense field was a desire to weaken the coordinating functions of the NATO. It was feared, too, that departing from the institutional pattern of the three Communities would weaken the momentum toward real unity in Europe. Some suspected that de Gaulle's objective was a European third force not in close alliance with the United States but acting independently. Furthermore, the Dutch were strongly opposed to proceeding along the lines suggested by General de Gaulle unless the British were invited to join. They argued that only if the Six were prepared to act more supranationally than were the British should the Six go ahead alone.

These fears and doubts have gradually dissipated. Despite considerable misgivings about General de Gaulle's underlying motives, the rest of the Six have become convinced that he now thinks in terms of a European confederation which, if not as complete a form of unity as some of the "Europeans" hope for, would be a coherent European power complex, not simply a coalition of national states.

At the last meeting of the six heads of government, a compromise was reached on the question of political development of the Six. Perhaps the most significant feature of the communique issued at the conclusion of the meeting is the statement that a "statutory character" will be given to the "union of their peoples" (text in app. A). Moreover, the further political construction is said to stem logically from the cooperation already begun in the European Communities. The heads of government have indicated a readiness to study the recommendations of the European Parliament on such matters as direct elections of the Assembly and unification of the three Communities. The preamble of the communique emphasizes the need for a united Europe to be allied with the United States. On the other hand, there is nothing in the communique to suggest that General de Gaulle has modified his earlier view that further European political unity must be achieved by cooperation among sovereign states rather than by delegation of power to supranational organs.

Looking ahead, the ultimate political structure of the Community is far from clear. The strong "Europeans," whose goal is a United States of Europe, appear to be biding their time, awaiting a favorable opportunity to renew their efforts to strengthen the supranational features of the three Communities, and to merge into the beginnings of a supranational European government. The need for central authority to maintain the degree of unity already achieved, and to permit the Economic Community to act as a unit in its external relations, is daily more apparent.

III. PROBLEMS OF BRITISH ENTRY INTO THE EUROPEAN COMMUNITY

On July 31, 1961, Prime Minister Macmillan announced to the House of Commons that his government had decided to apply for membership in the European Economic Community. This may well prove to be the most far-reaching decision by any British Government in recent times.

The United Kingdom has accepted in full the objectives laid down by the Treaty of Rome including the elimination of internal tariffs, a common external tariff, and a common agricultural policy. It has announced its willingness to play its full part in the institutions of the Community and has asked for no amendments to the text of the treaty. Despite these commitments, it is clear that there will be difficulty in accommodating certain British interests with Continental, particularly French, interests in such a way as to make British entry acceptable to both sides. Foremost among the problems of accommodation are those raised by the United Kingdom's Commonwealth arrangements and by the closely related problems of British agriculture.

A. THE COMMONWEALTH PREFERENCES

The Commonwealth problem is not one but a series of problems. One potential difficulty may be quickly disposed of—that is the tariff preferences which the United Kingdom now enjoys in the other Commonwealth countries, particularly in Australia, New Zealand, and Canada. These preferences were once of great importance to British exporters but their value has been eroded by price increases and by the pressure from the Commonwealth countries concerned for greater freedom to reduce their tariffs in negotiations with third countries. The British Government, as long ago as March 1961, stated its willingness to give up, as part of a European settlement, the preferences which United Kingdom exports now enjoy in the other countries of the Commonwealth.

The Commonwealth problems that must be settled as a condition of British entry into the Community arise rather from a deep-seated British reluctance to undertake any commitment that would hurt the other members of the Commonwealth. And indeed the dependence of the Commonwealth on the British market is such that without special arrangements to protect genuine needs, British entry into the Community could be materially damaging to other Commonwealth countries. The British Government must have reached the conclusion that arrangements of this kind which would be acceptable to the 6 countries can be envisaged; or it would not have applied for membership.

Within the Commonwealth there are a number of countries that produce a limited range of exports and are, today, critically dependent on the British market. The British are convinced that any abrupt

change in the ability of these countries to maintain their exports would have economic and political consequences that would be detrimental to the free world as a whole. In the British view, the need to find arrangements to avoid genuine hardship is therefore not simply a British necessity arising from Britain's historical relationship and moral commitment to the Commonwealth but is in the interest of the free world generally.

Not all the preferences or rights of free entry now enjoyed by other Commonwealth countries in the British market are in this category, of course. A distinction must be drawn between the need to avoid real hardship to Commonwealth countries and the natural desire of all Commonwealth countries that no arrangements be made which will give them fewer advantages in the British market than they now enjoy. The British Government has used as one of the strong reasons for joining the Community the argument that, by joining, the British economy will become stronger and thus better able to meet what is today the most urgent need of the Commonwealth, capital. (As a British minister has observed: "You cannot invest a deficit.") More capital, an expanding market for Commonwealth exports, and release from the contractual obligation to give preferences to United Kingdom exports, are the considerations the British believe they can offer in exchange for some impairment of the Commonwealth's present trade arrangements with the United Kingdom.

In some cases this may be enough, but in the case of underdeveloped members of the Commonwealth and certain other countries which are heavily dependent on a few exports to the British market, these generalized economic benefits would not be enough to outweigh specific losses of trade, if present preferences and rights of free entry were to be entirely discontinued. These more difficult situations, and possible ways of dealing with them, will therefore be considered in more detail.

B. TEMPERATE ZONE FOODSTUFFS AND BRITISH AGRICULTURE

New Zealand, Australia, and Canada now enjoy free entry into the British market for their important agricultural exports—butter, lamb, and cheese in the case of New Zealand, wheat, meat, and butter in the case of Australia, and wheat in the case of Canada. Table IV shows how dependent these countries are on their exports of wheat, meat, and dairy products to the United Kingdom.

TABLE IV.—*1958 selected exports in millions of U.S. dollars*

Commodity	New Zealand		Australia		Canada	
	Total	To United Kingdom	Total	To United Kingdom	Total	To United Kingdom
Wheat	----------	----------	59	17	460	155
Fresh meat	205	129	118	87	46	.09
Canned meat	16	10	42	27	11	.9
Butter	109	103	33	25	.003	----------

Source: United Nations Statistical Papers, series D, vol. VIII, No. 4, "Commodity Trade Statistics January–December 1958," New York, 1959.

Membership in the Community will commit the British to make progress toward a common agricultural policy with the Six. But if the United Kingdom were simply to adopt the common agricultural price-support system now being discussed by the Six, the United Kingdom would not only have to terminate the present free entry for grain, meats, and dairy products from the Commonwealth, but would have to impose a variable import levy on these imports, the height of the levy corresponding to the difference between the agreed European price and lower world prices. This would be difficult enough politically in the United Kingdom even if there were no appreciable effect on Commonwealth trade. The effect on Commonwealth trade, however, would be pronounced; substantially increased quantities of European products and correspondingly smaller quantities of Commonwealth products would be sold on the British market.

The United Kingdom's agricultural support system relies on direct subsidies to farmers to support their income, imports being duty free or subject to low tariffs and prices to the consumer being determined in world markets. The present continental systems and the system now under consideration by the Six, as we have seen, use price supports buttressed by tariffs or variable import levies. Achievement of a common agricultural policy and free trade in agricultural products between Britain and the Six will doubtless require the United Kingdom to move some way at least toward the continental approach, which means increased food prices for British consumers and some replacement of Commonwealth by continental products: French wheat for Canadian and Australian, for example, and Dutch and Danish butter for the New Zealand product.

To be politically possible, such changes obviously require time. The Government of the United Kingdom will insist on a considerable period of transition, and on transitional arrangements such as preferential quotas, market-sharing arrangements, or long-term contracts to prevent any abrupt reduction in British imports of Commonwealth wheat, meat, and dairy products. Not only the Commonwealth countries but also the United States and Argentina and other countries have major interests in the form of such arrangements and how they are administered, as the British Government recognizes.

C. TROPICAL PRODUCTS

If the British were simply to join the Community, leaving the Commonwealth and the remaining oversea possessions outside, a serious problem would be created for the countries which are heavily dependent on exporting tropical products to the British market. For the British would have not only to deny these imports of tropical products the preferences they now enjoy in the British market; they would also have to subject the tropical exports of the colonies and Commonwealth members to the common external tariff, which gives a substantial preference to competing products from French Africa. (For example, the common external tariff for coffee is now 16 percent, for cocoa 9 percent, and for bananas 20 percent.) This is recognized on all sides as an unreasonable and unacceptable result.

For the British possessions and for certain Commonwealth countries in the tropics (the British West Indies, for example) the best solution may be to become Associated States under the Rome treaty.

But for some of Britain's former colonies which have recently achieved independence, this solution may be politically unacceptable and for them special arrangements may be necessary. One such arrangement would be simply to maintain the status quo and allow continued free entry for their products into the British market. (The Community has already permitted a special arrangement of this kind between Morocco and France, and Surinam and Benelux.) Another possibility is to set the Community's external tariff at zero or a very low level for the principal exports of such Commonwealth members, thereby giving them substantially the same trading privileges as though they were associated with the Community, without the political overtones of association. A third possibility, and the most desirable one from the standpoint of other producers, is to reduce the external tariff to zero for these products from any source.

Countries outside the Commonwealth and the Community are vitally interested in the way this problem is worked out. The Latin American countries, and with them the United States, have an obvious concern about the extension of preferences in the continental European market to their competitors in Africa and the Caribbean for such products as coffee, sugar, and bananas. Southeast Asia is also concerned. The dependence of these countries on exports of tropical products is no less than that of the British colonies and the Commonwealth members. Thus we see again the interest of the rest of the free world in a "liberal" solution.

D. OTHER TRADE PROBLEMS

The problems of accommodating Commonwealth trade interests in Temperate Zone foodstuffs and tropical products are far and away the most serious economic questions raised by the British application for membership in the Community, but there are others worthy of brief mention. Today India, Hong Kong, and Pakistan export textiles and other low wage manufactures tariff-free to Britain, and these exports account for a large proportion of their foreign exchange earnings. Certain other Commonwealth members are dependent on particular products shipped to Britain: citrus fruits from the British West Indies, tobacco from Rhodesia, wine from Cyprus, to mention only a few. Though the trade volumes involved are small relative to those of the other products we have considered, ways of accommodating the economic interests of these countries will be of concern to the United Kingdom in the negotiations with the Six.

E. THE OTHER MEMBERS OF EFTA

A final concern of the United Kingdom Government as it enters into negotiation with the Six is the treatment of the other members of EFTA. The British decision to join the Community separately means the end of EFTA. The questions therefore arise whether the other EFTA members will also be accepted as members of the Community and what form of association may be open to the European neutrals—Austria, Sweden, and Switzerland—if full membership is felt to be incompatible with neutrality.

The Six have already answered the first of these questions by their recent decision to enter into negotiation with Denmark looking toward

full membership for that country in the Community. Under the treaty, the Community could enter into some form of association with EFTA members who do not wish full membership.

A looser arrangement with the European neutrals, for example, would not endanger the Community's progress as British association, in place of full membership, would do. Thus, some of the considerations that formerly led the EEC Commission, and others, to oppose a system in which there was an inner group with far-reaching commitments and an outer group with similar trade arrangements but fewer commitments would seem no longer to apply once the United Kingdom joins the inner group. There will then be no incentive for any of the Six to prefer the outer group. On the other hand, such arrangements for preferences to such nonmembers could raise serious questions for other nations, like the United States, which did not enjoy these advantages.

IV. ECONOMIC IMPLICATIONS OF THE ENLARGED EUROPEAN COMMUNITY FOR THE UNITED STATES

Until the European Economic Community began to crystallize into reality, the United States might have been pictured as the leader of a score or more of advanced industrialized nations, devoted to the concepts of economic and political democracy, and allied by loose economic ties in the fields of trade, payments, and investment. In the decade or two to come, that image is likely to change dramatically. The Common Market, enlarged by the United Kingdom and others, will match the international economic role of the United States and in some respects exceed it. The structure of the industrialized world outside of the Communist bloc, therefore, will be dominated by two economic giants.

The possibilities and opportunities opened up by this change in the economic structure of the free world are far greater than is generally appreciated. Whether they are realized will depend upon the way in which the United States and the European Economic Community address themselves to their common economic problems of trade, payments, investment, monetary and fiscal policy, and the like.

A. MUTUAL ECONOMIC DEPENDENCE OF THE ENLARGED COMMUNITY AND THE UNITED STATES

By way of introduction to that question, it will be useful to look at some of the general economic characteristics of the enlarged European Economic Community. At the present moment it is not certain how many nations besides the United Kingdom will join the original Six of the Common Market to form the enlarged Community; but Denmark, Norway, and Ireland are obvious candidates. While as yet unwilling to join as full members, Sweden, Switzerland, and Austria have indicated their intention of associating themselves in some way with the Community. Table V shows the main economic aggregates for the original Six, for the enlarged Common Market as it would be if it included all of these additional countries, for Canada, and for the United States.

TABLE V.—*Economic aggregates for the enlarged Common Market, Canada and the United States, 1960*

Country	Estimated population midyear 1960 (millions)	Gross national product at current prices (billions)	National income		Gold and foreign exchange reserves as of September 1961 (billions)
			Total (billions)	Per capita	
European Economic Community (Belgium, France, Germany, Italy, Luxembourg, Netherlands)	169.2	$179.1	$130.5	$771	$15.3
United Kingdom	52.5	65.1	56.7	1,080	3.6
Other prospective members or associates of EEC (Austria, Denmark, Ireland, Norway, Sweden, Switzerland)	30.9	38.0	30.9	1,000	4.9
Subtotal	252.6	282.2	218.1	863	23.8
Canada	18.0	37.1	28.3	1,572	1.9
United States	180.7	505.2	417.5	2,310	17.5
Grand total	451.3	824.5	663.9	1,471	43.2

Sources: OEEC, Statistical Bulletins, General Statistics, July and September, 1961; United Nations, Monthly Bulletin of Statistics, October 1961; IMF, International Financial Statistics, November 1961.

The resulting percentages reveal the importance of the United States and the enlarged Common Market to each other and to the rest of the world. Under existing conditions, the enlarged Common Market would be sending a fifth of its total exports to the United States and would be obtaining a quarter of its total imports from the United States. In turn, over 30 percent of U.S. exports would go to the enlarged Common Market, and it would be the source of 27 percent of U.S. imports. As of the end of 1960, a fifth of U.S. private long-term investment abroad was in the enlarged Common Market, and over two-thirds of all private long-term foreign investment in the United States came from this source.

TABLE VI.—*Trade and investment relations between the United States and the enlarged Common Market, 1960* [1]

[Dollars in billions]

EEC exports to United States	$2.3
As percentage of EEC total exports	20
As percentage of U.S. total imports	16
EEC imports from United States	$3.8
As percentage of EEC total imports	27
As percentage of U.S. total exports	19
EFTA exports to United States	$1.6
As percentage of EFTA total exports	17
As percentage of U.S. total imports	11
EFTA imports from United States	$2.6
As percentage of EFTA total imports	22
As percentage of U.S. total exports	13
Combined EEC and EFTA exports to United States	$3.9
As percentage of EEC and EFTA total exports	19
As percentage of U.S. total imports	27
Combined EEC and EFTA imports from United States	$6.4
As percentage of EEC and EFTA total imports	25
As percentage of U.S. total exports	31
Total U.S. direct investments in EEC	$2.6
Total U.S. direct investments in EFTA	3.8
Total	6.4
As percentage of total U.S. direct investments abroad	20
Total EEC direct investments in United States	$1.4
Total EFTA direct investments in United States	3.2
Total	4.6
As percentage of total foreign direct investments in United States	67

[1] EEC and EFTA totals omit trade within each group and between groups.

Sources: OEEC Statistical Bulletins, General Statistics, July 1961; U.S. Department of Commerce: Statistical Reports, pt. 3, No. 61, 23 and 24; U.S. Department of Commerce, Survey of Current Business, August and October, 1961.

Of more immediate significance are the trade and investment relationships indicated in table VI between the United States and the enlarged Common Market. In order to use available statistics, this table had to be constructed on the assumption that all members of the European Free Trade Area were full or associated members of the European Economic Community. Hence, the trade of all member countries with one another could be considered part of the internal commerce of the enlarged Common Market and could be eliminated from the totals.

Together, these two giant economic units would be responsible for half of the world's total trade. With a combined population of 450 million, a consolidated gross national product of nearly $825 billion, and total monetary reserves of over $40 billion, the Atlantic partnership, if effectively organized, would be capable of carrying out all of the tasks, outlined in part I, confronting the Western nations in the decades to come. To achieve such unified strength, however, the United States and the European Community will have to make major changes in their existing economic relations with each other.

These relationships will undoubtedly be modified by the specific conditions under which the United Kingdom and others join the Six,

and thereafter by structural changes which will ensue within the Common Market. The individual members of the Common Market have, in varying degrees, been substantially dependent upon foreign trade, partly because of their meager endowments of natural resources in relation to their population. The removal of barriers to trade within the enlarged Community will in effect convert a substantial portion of their existing foreign trade into domestic trade and will further stimulate the growth of internal commerce. Nonetheless, the enlargement of the Common Market does nothing to improve the relation of population to natural resources and, as population and incomes grow, the need to import fuel, industrial raw materials, and certain kinds of food will increase.

It is axiomatic that trade increases among industrialized countries as they grow. Economic growth is essentially a process of increasing specialization and division of labor both within countries and among them. The more industrialized an economy and the higher its living standards, the more it will open up new fields of economic activity, institute new processes of production, and generate new products and services for consumption. Thus, as between the two most industrialized areas of the non-Communist world—the United States and the enlarged Common Market—there should continue to be over the long term greatly expanded opportunities for mutually advantageous trade both in production and in consumption goods.

The basic condition, therefore, for expanding economic relationships between the enlarged Community and the United States is that both have adequate rates of economic growth. In this respect, the performance of the Common Market has been much more satisfactory than that of the United States; indeed, its rate of economic growth has been double that of the American economy in recent years. Moreover, it seems reasonably certain that growth will continue at a high rate in the enlarged Common Market. Though the entry of the United Kingdom may initially lower the average—the United Kingdom's rate of growth has been even less satisfactory than that of the United States—the Community's growth rate will still be high, and membership in the Common Market should stimulate an improved British performance within a few years. The major uncertainty is not that the enlarged Common Market might fail to grow at an adequate rate, but that the United States would continue to be deficient in this basic respect. In this sense, realization of potential opportunities for increased trade and investment between the two large entities depends more upon the United States than on the European Community.

Thus, both for the United States and for other countries of the world, the prospect of an enlarged and dynamic Common Market opens up major new opportunities for expanding and mutually beneficial trade and other economic relations. However, whether and how soon these opportunities can be realized depends not only upon long-term growth factors but also upon the deliberate trade policies which the countries concerned will follow.

The fact that the enlarged Common Market will continue to be significantly dependent upon foreign trade should, even in the shorter run, help to predispose it toward a liberal foreign trade policy, though it is not sufficient by itself to guarantee such a policy. This factor will be reinforced by major economic, political and psychological con-

siderations. The Community, too, recognizes the gains to be obtained from increased trade and investment. The Soviet menace and the habits of economic cooperation built up since World War II will continue to exert pressure toward the strengthening of the Common Market's ties with the other industrialized and many underdeveloped countries.

But the key question for the enlarged Common Market in deciding upon its orientation will be the outlook and policies of the United States. If the United States is eager for a strengthening of economic ties with the European Economic Community and for an outward-looking approach to economic relations with the other nations of the world, the chances that the Community will be disposed to a similar approach would be greatly increased. A contrary attitude on the part of the United States could turn the Common Market inward, increasing its potential protectionist features.

Exactly what these alternative possibilities mean is best illustrated by turning to some of the more specific opportunities and problems with which the United States and the European Economic Community will be confronted.

B. TRADE PROBLEMS AND POLICIES

A common market demands the reduction or elimination of the barriers to trade among the nations concerned. This, of course, eases the difficulties of trade inside the common market; but at the same time it increases the difficulties of outsiders who wish to penetrate the market with their goods. All at once, outsiders discover that some of their competitors can sell inside the common market at more favorable terms than they. The very creation of an enlarged European Economic Community, therefore, casts the shadow of a risk that an economic wedge could be driven between the two main Atlantic entities.

The basic question for the United States is whether the risk of a new divisive force can be overcome; better still, whether it can be turned into an opportunity for even closer association and greater mutual benefits among the advanced nations. To assess the possibilities, we shall have to consider three different aspects of trade among these countries.

First, there is the direct trade in manufactured goods between the Common Market and the industrialized nations—the United States, Canada, Japan, and those European countries which do not become full or associated members of the enlarged Common Market. Second, there is the problem of trade in temperate zone agricultural products involving not only the United States and Canada, but also Australia, New Zealand, Argentina, and Uruguay. The third main problem relates to trade in tropical products, particularly the relationship of Latin American agricultural and mineral exports to the Common Market, and the related problem of worldwide commodity stabilization arrangements.

(1) Manufactured goods

The extent to which trade among the industrialized countries realizes the potential expansion made possible by future economic growth, and the determination of the specific commodities of which it will be composed, depend in part upon the particular foreign trade policies followed by the countries concerned. As the Common Market's internal

trade restrictions go down, one important question for the United States and other outside nations will be the height of the Community's external tariff rates and the nature of their other barriers against imports.

In general, the common external tariff of the Six embodies a moderate degree of protectionism on manufactured goods that seems to be slightly higher on the whole than that of the United States. It represents an average of the relatively high duties on imports of manufactures previously imposed by France and Italy, the more moderate rates of Germany, and the very low rates of the Benelux countries. It is not yet certain how Britain's high tariff structure and the lower duties of Denmark and Norway would be assimilated into a new Common Market structure, but not much change in the average level of protection on manufactured goods is to be expected. Nonetheless, manufactured exports to the Common Market from the United States and the other industrialized countries are bound to be affected by the differential between the external tariff of the enlarged Community and its declining internal tariffs.

Apart from tariffs, however, the ability of the United States and of the other industrialized countries to export their manufactured goods to the enlarged Common Market depends more fundamentally upon comparative levels of productivity and of export prices, and on the vigor and flexibility of the business firms engaged in export trade. In recent years, the Six have enjoyed high rates of capital investment and productivity growth. The enlargement of the Common Market should provide further stimulus to this process for the original Six, particularly during the initial years and perhaps for most of the decade of the 1960's. The United Kingdom, which has had a comparatively low rate of productivity growth during most of the 1950's should be able to increase productivity significantly; indeed, this is one of the major reasons why it is joining the Common Market. Thus, it is possible that productivity growth rates in the major Common Market countries will continue at a relatively high level at least for the next few years.

To be sure, the problems of economic growth in Common Market countries, especially in Germany, had been eased until the late 1950's by ample supplies of labor and by the ability to use already existing U.S. technology and product design. At the same time, however, there has been considerable technological innovation in Western Europe and much greater attention to improving the efficiency of management methods, distribution, and the intangible factors in productivity. In these respects, many producers within the Common Market have learned the lessons stressed by the United States during the Marshall plan and are now able to keep up with—and in some cases to surpass—their American counterparts in precisely those aspects of technological innovation and managerial efficiency in which U.S. producers have had special strength. This change in the attitudes and methods of European industry is likely to be strengthened by the enlargement and progress of the Common Market in consequence of widening economic opportunities, increasing economies of scale, and a general atmosphere of expansionism. At the same time, the differential between European and U.S. wage costs has been narrowing during the 1950's, and will probably continue to narrow during the 1960's.

Hence, quite apart from the effects of tariffs and other deliberate barriers, trade in manufactured goods between the Common Market and the United States is likely to change in character. Instead of representing an exchange of advanced U.S. products and labor-intensive European goods, it is more likely to consist of the exchange of specialties among partners more equally matched in technology and income. However, this need not mean a reduction in trade; on the contrary, as experience inside Europe itself has amply demonstrated, this closer matching of the economic characteristics of the advanced economies can actually provide a basis for considerable trade expansion. In addition, the probable continuation, and even acceleration, of the postwar rise in European living standards could well open up for U.S. exporters an expanding mass market for the wide variety of consumer durable and semidurable goods which U.S. industry produces so efficiently. But very little of this possibility could be realized under the Common Market's existing external tariff rates, which are high for most of these items, and will remain so as the Community's internal tariffs are progressively abolished. Thus, much of the potential expansion will be unrealized unless drastic steps are taken to overcome the differential between the Common Market's external tariff and its declining internal duties.

That can happen only if the United States itself is prepared drastically to reduce its tariffs and other barriers restricting manufactured imports from the Common Market. Some of the consequences for the United States in not seizing the challenge are fairly clear. It would become isolated from a market which in recent years has grown more dynamically than its own; at the same time, its political ties with the countries concerned would tend to weaken as a result of mutual economic withdrawal. The challenge for the United States, therefore, is to find the means of countering the forces which might push both sides toward isolation.

The fact that the existing authority to reduce U.S. tariff rates expires in June 1962 provides an opportunity to make the necessary changes in U.S. trade policies in time to start negotiations with the enlarged Common Market and the other countries concerned soon after British entry becomes effective, presumably early 1963. The President's authority to reduce U.S. tariffs, under existing legislation, can be exercised only with respect to rates on individual commodities and in return for specific reciprocal concessions by other countries. At the last renewal in 1958, the additional authority to reduce tariff rates then granted to the President was to a considerable extent nullified by the strengthening of peril-point limitations and by the previous narrowing of the definition of industry injury so that it referred in effect to the impact of imports on individual products rather than on the competitive position of an industry as a whole. Although the tariff-cutting authority expires in June 1962, the peril-point limitations, escape-clause procedures, and other protectionist provisions are permanent legislation.

The procedure hitherto followed by the United States of negotiating reciprocal reductions on individual rates has been slow, cumbersome, and artificial, and would be ineffective in dealing with the new situation created by the enlargement of the Common Market. Instead, authority will be needed to reduce substantially, and in some cases to abolish, the duties on broad categories of goods—in effect to make

the same kind of "across-the-board" cuts that the European countries have been doing vis-a-vis each other. The limitations imposed by the existing peril-point procedure and other requirements, as well as the escape clause, should be abolished or drastically revised. The problem of injury to domestic producers can be dealt with in other ways. The new legislation might include two features.

The first would be the provision of financial assistance to U.S. business firms, workers, farmers, and other producers who lack the resources or the skills necessary to adjust to the impact of increased imports. Considerable administrative flexibility would be required to carry out such a program effectively. One method would be to expand the scope of the Area Redevelopment Act of 1961 so that Federal assistance could be provided anywhere in the United States to business firms, workers, and farmers who could demonstrate their inability to adjust to the adverse effects of increased foreign competition with the resources or skills available to them. Many producers would be able to handle the adjustment problem themselves—just as any well-run enterprise in the United States is constantly adjusting its products and techniques in response to changes in the U.S. market in production methods, consumer preferences, and other competitive factors. However, some enterprises will be adversely affected by greater import competition precisely because they have lacked the entrepreneurial vigor or the financial resources needed to increase their productivity or to undertake the research required to develop new products and methods. Some farmers and workers may, in consequence, suffer unemployment, and may lack the skills needed for other jobs or the money for moving to new locations where employment is available. The Federal Government should be able to provide the necessary help through tax exemptions, loans and grants, or other devices. It is pertinent to note that the Common Market has had a readjustment assistance program as part of its reduction of internal tariffs. Yet there have been few applications for help under it despite the substantial cuts in tariffs already made by the Six.

The second new provision might be authorization to implement (by quotas or in other ways) multilateral agreements with other importing and exporting countries regarding increased markets for manufactured goods from the so-called low wage-cost countries. The long-term arrangement now being negotiated in Geneva on cotton textiles from Japan, Hong Kong, India, Pakistan, and other countries is a first example. This device would permit imports of cheaply produced manufactured goods and other commodities from underdeveloped countries to share in some specified way in the future increase in markets in North America and Western Europe. The President's authority to implement such multilateral agreements now appears to be limited to commodities of agricultural origin and should be extended to other types of goods.

Such changes in policies would enable the United States to realize the important new opportunities for the growth of mutually beneficial trade between it and the enlarged Common Market, and to avoid the converse dangers of mutual losses if the wrong attitudes and policies are adopted. In consequence, these two large economic entities could reduce substantially their tariff and other barriers against each other. Such concessions should then be extended to as many other

non-Communist countries as possible in accordance with the most-favored-nation principle.

(2) Temperate zone agricultural products

A different and perhaps more difficult problem will exist regarding trade with the enlarged Common Market in Temperate Zone agricultural products. The main outlines of this problem have already been discussed in part III above, in connection with British entry into the Common Market. Regardless of the transitional arrangements devised to take care of the special export problems of New Zealand, Australia, and perhaps Canada, there will be a persistent longer term problem of temperate zone agricultural policy among all of the major exporting and importing countries.

In the postwar period, agricultural productivity had risen fast in North America and Western Europe, and production has grown despite the movement of large numbers of people out of agriculture in most of the countries concerned. For political and social reasons, all countries have policies designed to maintain the incomes of their farmers by price supports, subsidies, import restrictions, and other devices. While efforts have been made to limit surpluses, large unsalable stocks have been accumulating, particularly in the more efficient producing countries. Efforts to dispose of these surpluses through noncommercial channels (e.g., the food-for-peace program) have had a limited usefulness, and do not promise very much greater success in the future.

So far, international action on this problem has been confined largely to the trade aspects; that is, to the search for a level of intercountry trade which satisfies the minimum needs, on the one hand, of the exporting countries to dispose of surpluses, and, on the other hand, of the importing countries to maintain politically and socially acceptable incomes for their own farming populations. It is already clear, however, that the problem cannot be solved solely by means of international trade arrangements. Sooner or later, a common agricultural policy will be needed for the temperate zone exporting and importing countries which will harmonize their internal and external needs. Over the longer term, such a common agricultural policy will also be essential for mobilizing the vast productive power of all the temperate zone countries to help meet the needs for food resulting from increasing populations, industrialization, and rising living standards in other parts of the world.

For the United States, the basic choice is whether it will seize the opportunity of the United Kingdom's entry into the Common Market to take the first steps toward such a common policy. Quite apart from longer run political questions, the economic stakes—reflected in U.S. exports of agricultural products to Europe—are very large. But even the first steps toward a common agricultural policy touch sensitive political nerves in every country concerned. Issues which heretofore have been thought of as exclusively domestic questions become a matter for international discussion—issues such as production controls, price supports, commodity loans, and the like. The question is whether the United States and other countries will recognize that their political and economic interests demand such international collaboration and are prepared to operate within the framework which such collaboration might impose. At the present

juncture, the initiative for such an effort can only come from the United States.

(3) Tropical products

Another of the problems explored in part III involves the impact of the United Kingdom's accession to the Common Market upon world trade in tropical products. It is observed there that the United Kingdom's accession could lead to a situation in which the African countries export coffee, cocoa, bananas, tropical vegetable oils, and numerous other products into the enlarged Common Market on terms which discriminate against Latin American exports of the same products. The aftermath of such a situation can safely be predicted: Latin America would demand that the United States accept its products on preferential terms. In consequence, the United States could be reluctantly drawn into an arrangement which would open an economic and political gap between the Old World and the New.

These consequences could be avoided in a number of different ways. One is through the use of global commodity agreements which try to deal with the problems of all the major producers and consumers of a given product. The United States already is involved in such an effort with coffee, but it may be that cocoa, tropical oils, and some of the nonferrous metals in chronic surplus will also require an approach of this kind. Alternatively, a scheme could be worked out for compensating exporting countries for unmanageably large losses in their foreign exchange earnings. The possibilities offered by such arrangements, however, should not be overrated. Difficult to negotiate, even more difficult to enforce, they are only a limited response to the problems of the exporting countries.

Added measures, therefore, are needed to reduce the exporting problems of the underdeveloped nations. One of these is for the industrial nations jointly to agree to eliminate all of their import duties and revenue-raising taxes on tropical products. Such a move would be tangible evidence of the fact that the partnership of the two big Atlantic entities did not constitute a "rich men's club" intended for the exploitation of the developing areas. But it would not be an easy step for some of the countries concerned. Germany, for example, would have to give up lucrative taxes; others, such as France, would have to abandon their objective of providing a favored position in their markets to certain tropical countries, whatever the cost may be to others. The United States would have to admit products free of duty which were in direct competition with important domestic products; e.g., edible oils and hardwoods. The need to take such measures is very great, but it will require determined leadership of the United States to bring the necessary agreements into existence.

C. INVESTMENT PROBLEMS AND POLICIES

Since the end of the Marshall plan, as U.S. exports to Western Europe have grown, U.S. private investment in Western Europe has also been increasing. A number of considerations have influenced the investors: the effect of European tariffs, comparative production costs, widening economic opportunities within the expanding Common Market, pres-

tige and "fashions" in investment policy, and so on. These factors will continue to operate after the enlargement of the Common Market.

From the point of view of U.S. national policy, the question tends to be posed as one of exports to the Common Market versus investment in that area. It appears in this form both because of its alleged domestic economic effects and because of its shorter term impact on the U.S. balance of payments. Thus, it is claimed that U.S. companies investing in Europe are "exporting American jobs," and that the forgoing of exports and the capital outflow combine to augment the U.S. balance-of-payments deficit. The proposal to require U.S. business firms to pay taxes annually on their earnings from investments in Europe—instead of, as now, only when profits are remitted to the United States—is motivated in part by this concern for the balance of payments.

The possible employment and balance-of-payment effects of U.S. investment in the Common Market are in fact little understood. As far as jobs go, the effect of U.S. investment in Europe in some cases is to reduce U.S. exports to that area; yet, in other cases, the investment stimulates the shipment of U.S. capital goods, of intermediate materials for processing, and of finished goods to supplement product lines fabricated in Europe. An even more important effect on U.S. jobs of the investment of U.S. capital in Europe is its stimulus to the growth of European incomes. With a reasonably high propensity to import U.S. goods, this increase in European incomes yields a further expansion of U.S. exports.

The effects of U.S. investment in Europe on the U.S. employment situation are, therefore, uncertain. And, the same can be said of the effects of such investment upon the U.S. balance of payments. Here, in fact, the reverse flow of interest, royalties, dividends, and the like, is bound eventually to tip the balance in favor of the United States.

In the long view, U.S. private investment in the enlarged Common Market and, hopefully, the possibility of substantial European investment in the United States represent as significant a form of economic integration between these two large economies as expanding trade. Indeed, in some respects, investment may be even more significant than trade, because market arrangements between independent traders are more easily broken than are the legal, managerial, and financial ties which exist among the separate parts of the same corporate entity. Hence, the long-term U.S. policy ought to encourage a two-way flow of investment capital across the Atlantic.

D. MONETARY PROBLEMS AND ARRANGEMENTS

One of the most important economic benefits that would ensue from the enlargement of the Common Market is the opportunity thereby provided for overcoming the inadequacies of the existing international monetary system. It is essential that the nature of this opportunity and the steps necessary to realize it should be better understood in the United States.

Since the inception of the Common Market, the Six have had no need for special monetary arrangements among themselves. Their balances of payments have been in surplus; their monetary reserves have, in consequence, been increasing; and there have been no monetary problems vis-a-vis one another which could not be handled through

conventional monetary mechanisms. While proposals for common monetary arrangements among the Six have been discussed from time to time, they have not been worked out in detail nor formally considered in the absence of a demonstrable need.

Nonetheless, many Europeans—particularly officials and public leaders most interested in European unification—have been in favor of eventually establishing some form of common monetary arrangement, both because they believe it may be required in the future to meet monetary problems and also because it would be a major step toward fuller economic and political integration. With the entry of the United Kingdom into the Common Market these reasons—particularly the first—become more cogent. While the subject may be discussed in the course of the negotiations, it is unlikely that any decisions will be made regarding monetary arrangements at the time of the British entry.

However, at some point early in the life of the enlarged Common Market, the problems of sterling will in all probability become matters of increasing concern to the other members. They will become so not only because of the position of sterling within the enlarged Common Market but also by reason of its external difficulties vis-a-vis the rest of the world. The Six have monetary reserves totaling over $15 billion, which could greatly strengthen the position of sterling under mutually satisfactory monetary arrangements. This supplement to the United Kingdom's own slender $3.5 billion of reserves is one of the main benefits which the British could derive from membership in the Common Market. However, access to the monetary reserves of the Six could only be granted under terms and conditions which establish a radically different relationship between sterling and the other currencies.

These considerations are important because of the specific nature of the difficulties faced by sterling. Essentially, there are two problems involved. The first and most fundamental is that of recurrent United Kingdom balance-of-payments deficits arising from a number of factors, among which the most important and persistent has been too low a rate of growth of productivity relative to the increase of domestic demand and the obligations which the United Kingdom has assumed for defense and development assistance in various parts of the world. The result has been a tendency for the costs and prices of British exports to get out of line with those of its major trading rivals. At the same time, the buoyancy of domestic demand, both for public expenditures and for consumption, diverts goods to the domestic market and provides little, if any, incentive for the revival of entrepreneurial vigor and competitive spirit which many British producers need.

The second reason for the difficulties of sterling is the fact that it and the U.S. dollar have been the international monetary system's two key currencies. Under the existing system, national central banks and treasuries hold large portions of their monetary reserves in these two key currencies and use them (in addition to gold) as the means for settling payments balances among themselves. Private business firms, banks, and financial institutions of all kinds do likewise. Hence, a major concern of the United Kingdom has had to be maintenance of external confidence in sterling so that it would continue to be held by foreign governments and central banks and by private bankers, busi-

nessmen, and investors in other countries. The difficulties of this task have always been compounded by speculative waves against sterling whenever the U.K.'s balance of payments remained for any length of time in a deficit position. With very slender monetary reserves of its own, the United Kingdom has throughout the postwar period had to make recurrent appeals for outside help to the United States, the International Monetary Fund, and other foreign sources of funds whenever the external acceptability of sterling has been threatened.

In theory, a solution of Britain's balance-of-payments difficulties would automatically overcome the difficulties of maintaining sterling as a key currency. But, in practice, the latter problem has imposed such narrow limits upon the U.K.'s freedom of action that it has prevented precisely those developments necessary to solve the first problem. Each time the rate of growth has begun to rise significantly in the United Kingdom, a balance-of-payments deficit has occurred, which has forced restrictive monetary action in order to protect the pound sterling. Inevitably, this has checked the growth of the economy, though it has brought the external accounts into reasonable balance. Thus, throughout the postwar period, the British economy has been caught in a vicious circle of inadequate productivity growth, inadequate exports, balance-of-payments deficits, and crises of confidence in sterling.

As the other key currency, the U.S. dollar did not encounter such difficulties until a short time ago. Throughout most of the postwar period, the dollar was a scarce currency and the U.S. balance-of-payments deficits, which occurred after 1950, were very small. However, since the restoration of convertibility by the European countries in 1958 and the large U.S. payments deficits of the last few years, the situation of the dollar has become similar to that of sterling. The United States cannot use restrictive monetary measures to the same extent as the British both for domestic reasons and because of its defense and foreign policy obligations. With persistent unemployment, unused production facilities, and lagging consumer expenditures in the United States, a restrictive domestic monetary policy would have to be quite severe in order to reduce imports, cut export prices, and thereby close the payments gap, particularly if foreign aid and other international expenditures were not also decreased.

So far, because of its large gold reserves, the United States has been able to finance substantial external deficits and withstand speculative waves against the dollar; and it may well be that the nature of the problem will have changed before these reserves are seriously threatened. Nonetheless, the issue is of such basic importance that the prudent course would be to look for some means for the handling of international payments which is less dependent upon the key-currency principle.

If the issue does not arise sooner in another context, it will arise when the enlarged European Economic Community considers what must be done with the position of sterling.

Many Europeans would prefer a system which would include the United States and Canada as full members, rather than a narrower arrangement limited only to the enlarged Common Market. They point out that all of the problems faced by the two key-currency countries exist within the group of Atlantic nations. The instability of

key currencies derives almost entirely from movements between the currencies of the developed nations, not from movements between them and the underdeveloped countries. Hence, the solution may lie inside the developed world.

Any decision by the United States to join such a monetary scheme has the most profound implications. It raises at issue the long-run function of the International Monetary Fund and the system of currency arrangements generated under the Fund's aegis. This, however, is no reason to shrink from the problem. The recognition that the Fund, as presently constituted, may be inadequate to deal with the problem of key-currency instability is by now fairly widespread. Such measures as the Fund has been able to devise, including various recent steps to enlarge its resources of hard currencies, are generally acknowledged to be little more than palliatives, useful only in the short run to deal with a further weakness in sterling or a limited run on the dollar.

Such a decision also would bring into question the relations of the currencies of the Atlantic countries to those of the underdeveloped nations. But, once again, the issue is one which present international monetary arrangements do not seem adequate to meet. The foreign exchange problems of the less developed countries result largely from a disparity between their ambitious plans for economic development and the foreign exchange resources they can earn by exports. This is a problem which can only be helped in the short term by the amount of foreign aid they can obtain, and over the longer term by their ability to produce and to sell for export.

For these reasons, the European proponents of new monetary arrangements favor a mechanism embracing the Atlantic countries rather than one limited solely to the members of an enlarged Common Market. And there would be compelling reasons for the United States to join such a system. If the problems of sterling were to be met by a purely European monetary arrangement, the dollar would be exposed to the full brunt of short-term monetary and speculative movements, which might well place too severe a strain on the U.S. monetary reserve even when supplemented by resources available from the International Monetary Fund. Moreover, such a development could result not only from bigger or more frequent speculative movements against the dollar, but also from any unfavorable impact on the U.S. trade balance arising from the enlargement of the Common Market. Thus, from the points of view both of the Europeans and of the United States, there would be strong reasons favoring Atlantic-wide, rather than purely European, monetary arrangements.

Regardless of its specific form, membership, and mechanisms, such a monetary arrangement, backed by the $24 billion of reserves of the enlarged Common Market and the $17 billion of the United States, would open up new possibilities for international monetary stabilization and the successful functioning of convertibility. To achieve this result, it would have to carry out three main functions:

First, through establishing a common reserve currency or in some other way, it would have to provide a mechanism through which all or part of the members' monetary reserves could be held in a form immune to speculative pressures and extreme monetary swings.

Second, it would provide closer and more automatic support for any member country than the International Monetary Fund now does;

moreover, the existence of the new system would in itself be a major psychological factor discouraging and limiting speculative waves against the leading national currencies, particularly the dollar and sterling.

Third, it would directly engage in transactions of various kinds designed to maintain an orderly international monetary market.

More intimate collaboration on monetary, fiscal and other national economic policies than now exists would be required for the success of the system.

E. HARMONIZATION OF NATIONAL ECONOMIC POLICIES

Not only would new monetary arrangements for the Atlantic countries demand the close harmonization of national economic policies among the members but it would also greatly facilitate trade and investment among them. North America and the enlarged Common Market are already each other's chief trading partners and will continue to be so. Thus, the maintenance of a high level of trade between these two groups of countries and the effective functioning of common monetary arrangements both require and will in turn facilitate a reasonable degree of harmonization of their respective national economic policies and conditions.

Such harmonization of national economic policies has only limited precedents. Prior to World War I, it was not necessary largely because governments accepted no responsibility for maintaining tolerable levels of employment, adequate rates of economic growth, or more equitable divisions of national incomes. Later, when such responsibilities were thrust upon them, some governments tried to meet them by policies of protectionism and self-sufficiency. But such remedies often proved as harmful as the difficulties they were supposed to counteract.

Since the end of World War II, the Western nations in particular have increasingly sought to achieve a high and beneficial level of trade and payments by supplementing the operation of market forces through deliberate efforts to harmonize economic conditions and policies among themselves. Such harmonization of national economic policies has not been either as thoroughgoing or as effective as its advocates believe desirable; its usefulness has been sufficient, however, to demonstrate its relevance to the distinctive conditions of the second half of the 20th century.

As more satisfactory trade and monetary arrangements between the United States and the enlarged Common Market are worked out in the next few years, the importance of harmonizing national economic policies and conditions will increase. In turn, the more effective such harmonization becomes, the more it will inevitably lead to closer economic integration among the Atlantic countries. But the more extensive such harmonization becomes, the more intimately it will involve issues which have hitherto been purely domestic.

As trade barriers are lowered and as the action of market forces becomes freer, harmonization may have to be extended to include not only fiscal and monetary policies but also levels and incidence of taxation, comparative wage and social welfare costs, and other factors normally regarded as exclusively domestic considerations and of major concern to powerful interest groups within each country. This is

the path which the United States must be prepared to accept over the long run. Any other course leads to isolation, stagnation, and ultimate disaster.

F. THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The recently established Organization for Economic Cooperation and Development (OECD) is the logical starting place for developing institutions to do the job of harmonizing national policies among the Atlantic countries. But the OECD as now constituted is inadequate for this task in several respects.

Operating as the Organization for European Economic Cooperation (OEEC) for the past 13 years, the Organization was naturally European in scope and interest. Since its transformation into the OECD, the Organization has been trying to broaden its focus and its staff, but it still has a tendency to look backward to the achievements of the OEEC for guidance rather than to concern itself with the emerging problems in the areas of trade policy, agricultural policy, and monetary arrangements which have been discussed.

A second difficulty relates to the role of the United States. So far, it is clear, the United States has attached great importance to the OECD, as evidenced by the top-level U.S. Government officials who have participated in its activities and the efforts made to help reorganize and expand its Secretariat. There is a question, however, whether the United States will be willing to provide the necessary leadership for a broadening of the OECD's present functions. Yet it is clear that the OECD will be quite unable to come to grips with the problems which have been outlined unless the United States gives a strong lead.

A third problem concerns the participation of the enlarged Common Market in the OECD. Hitherto, the Six have operated in the OECD as individual countries, and there has been no apparent effort to concert their policies in advance so as to participate as a unit within the organization. With the enlargement of the European Community, it will become even more important for the members to act as a unit in their external economic relations. The OECD cannot operate as an instrumentality of the Atlantic partnership if only one of the partners is effectively present.

A final development relates to non-European membership in the organization. All countries that have important economic and political relationships with the United States and the enlarged Common Market do not have to be members of the OECD for their interests to be adequately taken into account. At a minimum, however, Japan, Australia, New Zealand, and probably the larger and economically more advanced Latin American countries (e.g., Brazil, Mexico, Argentina, Chile) should participate in those activities of the OECD in which they have a major interest.

If these developments occur, and particularly if the required leadership is given by the United States, the OECD can become an effective instrument of the Atlantic partnership for solving common problems and for helping other free nations to overcome their difficulties.

G. THE ATLANTIC PARTNERSHIP AND THIRD COUNTRIES

The need for coordination and closer ties between the two Atlantic partners should not be allowed to obscure the critical needs for a constructive approach toward countries which lie outside the group. Indeed, one major justification for an Atlantic partnership—the only one which would appear adequate in the eyes of the rest of the world—would be its increased effectiveness in assisting other countries to deal with their problems.

The outward concern of the partnership has many aspects. One example turns around trade policy, particularly the course to be followed in negotiations on mutual tariff reductions between the United States and the enlarged Common Market. In this context there will be forces pressing both of the Atlantic partners toward a discriminatory solution; that is, a set of trade concessions in whose benefits third countries would not share. Yet, if this course were followed, it would deprive the partners of the opportunity to use their combined markets to help create prosperity and strength in the rest of the free world.

A second trade issue involves the treatment of imports of manufactures from the so-called low-wage countries. Here, the objective must be one of jointly offering enlarged market opportunities to such manufactures, on the grounds that the growth of these countries is the common concern of all the nations. And in this respect, the partnership can act with much less fear for the consequences of their action than could any one country alone.

A third area in which the Atlantic partners can do effective work is the enlargement and coordination of programs for the provision of aid to the underdeveloped countries. A start in this direction has been made in the OECD. The enlargement of the Common Market should raise both the capacity and the willingness of its members to increase their aid to underdeveloped countries, and thereby enhance the importance of consultation and coordination.

Indeed, the subject of foreign aid suggests the theme which should run through all the policies of the Atlantic partnership toward third countries outside the Soviet bloc. By policy and performance, their course should be one of pooling the strength of the advanced countries in order to insure that the other free nations can also advance.

APPENDIXES

APPENDIX A

Text of Final Communique of the Meeting of the Heads of State or of Government Held in Bonn on July 18, 1961

The Heads of State or of Government of the Federal Republic of Germany, Belgium, France, Italy, and Luxembourg, as well as the Prime Minister and the Minister for Foreign Affairs of the Netherlands, desirous of affirming the spiritual values and political traditions which form their common heritage, united in the awareness of the great tasks which Europe is called upon to fulfill within the community of free peoples in order to safeguard liberty and peace in the world, anxious to strengthen the political, economic, social and cultural ties which exist between their peoples, especially in the framework of the European Communities, and to advance towards the union of Europe;

Convinced that only a united Europe, allied to the United States of America and to other free peoples, is in a position to face the dangers which menace the existence of Europe and of the whole free world, and that it is important to unite the energies, capabilities, and resources of all those for whom liberty is an inalienable possession; resolved to develop their political cooperation with a view to the union of Europe and to continue at the same time the work already undertaken in the European Communities;

Wishing for the adhesion to the European Communities of other European States ready to assume in all spheres the same responsibilities and the same obligations, have decided:

1. To give shape to the will for political union already implicit in the Treaties establishing the European Communities, and for this purpose to organise their cooperation, to provide for its development and to secure for it the regularity which will progressively create the conditions for a common policy and will ultimately make it possible to embody in institutions the work undertaken.

2. To hold, at regular intervals, meetings whose aims will be to compare their views, to concert their policies and to reach common positions in order to further the political union of Europe, thereby strengthening the Atlantic alliance. The necessary practical measures will be taken to prepare these meetings. In addition, the continuation of active cooperation among the Foreign Ministers will contribute to the continuity of the action undertaken in common. The cooperation of the Six must go beyond the political field as such, and will in particular be extended to the sphere of education, of culture and of research, where it will be ensured by periodical meetings of the Ministers concerned.

3. To instruct their Committee to submit to them proposals on the means which will as soon as possible enable a statutory character to be given to the union of their peoples.

The Heads of State or of Government are convinced that by thus organizing their cooperation they will thereby further the application of the Rome and Paris Treaties. They also believe that their cooperation will facilitate those reforms which might seem opportune in the interests of the Communities' greater efficiency.

To this end they have decided:

1. To have a study made of the various points of the Resolution of the European Parliament of June 29, 1961, on the subject of political cooperation among the Member States of the European Communities.

2. To associate public opinion more closely with the efforts already undertaken, by inviting the European Parliament to extend the range of its debates to new fields, with the cooperation of the Governments.

APPENDIX B

The Problem of the Associated States

The association of certain African countries which have special relations with France to the European Economic Community is the source of a number of existing and potential problems. They have both economic and political overtones of wider significance. More important and broader problems can be expected to arise in the future, particularly if the United Kingdom enters the EEC and if the countries with which the United Kingdom has special relations receive advantages similar to that the former French dependencies enjoy.

The most obvious problems which arise for the United States in either case are in the field of foreign economic policy. Even the limited problems arising out of the present situation involve the economic relations between the United States, Europe, and many other countries of Asia and Latin America. In the background are questions regarding the international political position of many of the emerging nations of Africa.

Background

Until recently, there were extensive territories in Africa and Asia under European dominion. There was a dense network of political and economic ties between the European imperial powers and their dependencies overseas. These ties brought distant and often isolated regions into contact with the markets of Western Europe. In general, relations between the metropolitan powers and their oversea dependencies were on a strictly national basis.

But when the European Economic Community became the focus for the movement toward unity among the Six and a major end in itself, it was impossible not to take the dependencies of its French, Belgian, Italian, and Dutch members into account. When the British avowed their intention to seek membership in the Community in the fourth year of its life, the relations between the Six, Britain, the dependencies (or former dependencies) of both parties, and the rest of the world were acute problems for all concerned. The core of this problem was the relations between France and the former French dependencies who had been brought into close relations with the Economic Community at its inception when they were still dependent.

The French and British in Africa

The Treaty establishing the European Economic Community provided for the association of certain dependent territories not only of France but of Belgium, the Netherlands and Italy to the Community. This provision was the result of French insistence on specially favorable treatment for the French dependencies. French insistance was an outgrowth of the close political and economic ties between France and these dependencies, ties which the French Government was anxious to maintain. The problems raised by this association and by the possible association of Great Britain, along with territories in the Commonwealth, to the Community are international economic problems, but their political origins and aspects cannot be ignored.

Until very recently, most of the French dependencies were constitutionally a part of the French Republic. It was always implicit and often explicit that the ideal end of empire would be the full integration of the dependencies into the French Republic. This doctrine was only partially and imperfectly applied, but no substitute was found for it and it gave a decided bias to the way in which the French set about transforming their empire into a union in 1946 and their Union into a Community in 1956–58.

The public financial and monetary system and trading arrangements which grew up between France and the dependencies were greatly affected by these political considerations. The French Government provided large sums of money to the authorities in the territories of oversea France for public investment. This was done within the framework of territorial development plans as well as for certain purposes in the general interest. They also spent large sums in the territories directly. In large part these sums were used to support an extensive French military establishment there. But the French Government financed public services in the general interest and deficits in territorial budgets as well.

The monetary system had fairly broad powers of money and credit creation. Its powers were extensively used on behalf of the local disbursing officers of the French Government who were empowered to call on the local agencies of the oversea banks of issue for advances to meet the local currency costs of public expenditures (including grants and loans for development) financed by the French

Government. They were also used to give rediscount facilities to local banks for commercial paper and for other local purposes. The inflationary consequences were evident in very large imports, largely from France. An elaborate system of quantitative restrictions and tariff preferences on imports into the territories and of protection against foreign producers on French markets kept trade within "imperial" channels.

Another characteristic of the relationship was a continuing flow of profits and savings from the territories to France. The existence of a distinct African franc which was revalued vis-a-vis the French franc and is now substantially overvalued in French francs encouraged both imports into the territories and remittances to France.

The territories had no difficulty in meeting their needs for French francs. The oversea banks of issue were credited in Paris with the sums in local currency which they advanced to the local disbursing officers of the French Government. When these receipts (and, of course, the French franc proceeds of exports from the territories) were insufficient to pay for imports and remittances, they could borrow from the French Treasury in unlimited amounts at nominal rates of interest. Normally, they did not require these additional facilities, and regularly increased their holdings of French francs, largely because French public expenditures more than met their franc requirements. The system permitted and even encouraged levels of public expenditure, private consumption, and imports far above the ability of the territorial eco omies to support.

The relations between Britain and the British territories in Africa were, in general, in accord with the British policy of bringing dependencies to self-government and ultimately independence. British control during this period was a good deal less centralized than French. There was a rather rigid monetary system with a deflationary bias. In the fields of public finance and trade, there was a well-established tradition of restraint. The trading arrangements in the British territories were a good deal less rigid than in the French. Consequently, trade in both directions were more diversified. A set of commercial arrangements (the marketing boards) enabled governments to allocate to themselves a large share of the profits from foreign trade. In combination, these arrangements produced budgetary and foreign trade surpluses. Substantial foreign (sterling) reserves were built up in this way.

British assistance was relatively modest. The territories were able to finance their public expenditures and a large part of their expenditures on development with their own resources. Indeed, their resources were used a good deal more slowly than they were accumulated. Consequently, until the middle of the 1950's, the sterling reserves of the British dependencies continued to increase.

When the restraints were lifted, as they were progressively in Ghana and Nigeria from the middle 1950's, domestic pressures for the outward manifestations of independence and more ambitious ideas about development (notably of the social services) raised demand for imports. The increase slowed and then reversed the rate of accumulation of reserves. At the same time, the markets for tropical foodstuffs weakened. Unlike the French territories, the British territories had only their own reserves with which to maintain their (rising) level of expenditure at home and abroad and were more vulnerable than the French territories to the state of world markets for their exports.

By the end of the 1950's, both groups of territories were living beyond their income. The British territories required external assistance to finance their development plans; the French, to finance expenditures for current public purposes as well.

The European Economic Community in Africa

The treaty establishing the European Economic Community included provision for special close relations between all six members and certain "overseas countries and territories," now called "Associated States" (AS). The French Government, acting under the influence of the ideas set forth above, hoped to preserve close ties between France and the French dependencies in this way. There was a broader view among some proponents of European unity. They hoped that the Community as a whole could establish and maintain a special relationship with these territories, thereby strengthening the position of the Community in the world just as they believed the position of the United Kingdom to be strengthened by Commonwealth ties. The new arrangements would, of course, be advantageous to the territories.

There was opposition to these arrangements, particularly when the details were worked out in practice, in some Community quarters. Some felt that the

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French had secured too favorable a position for themselves, a position which they shared inequitably with the other members of the Six. Others took a broader view, arguing that the Associated Countries and Territories were a relatively small and unimportant part of the world, or even Africa. But the provisions of the treaty (and the convention) relating to these matters entered into effect on January 1, 1958.

Aid, free nondiscriminatory trade, and the right of establishment for all of the Community states are the three most important principles of the relations between the Community and the Associated States. The way in which these principles were to be implemented was set for a trial period of 5 years only, although the principles themselves are a permanent part of the treaty. All three were defined in terms greatly influenced by the uneasy transition in French Community affairs and by the then unstable French economic situation.

The French believed that aid, in very large amounts, was essential if their influence was to survive in Africa. They asked that the other five members of the EEC share with them the burden of financing investment in Africa. The others were to contribute the equivalent of $381 million which was to be used to make grants to the AS of all the members during a period of 5 years. France agreed to contribute the equivalent of $200 million, with the reasonable certainty that the French AS would reserve a much larger share of the total of the equivalent of $581 million. The fund began its operations on the entry into effect of the treaty.

The trading arrangements between the Community and the AS were to be brought progressively into effect. Member countries were to remove customs duties and quantitative restrictions on all imports from AS. The latter were to do the same for imports from all member countries without discrimination. These measures were to be taken in accordance with the schedule for the elimination of customs tariffs and quantitative restrictions on trade among member countries. There were important exceptions to these provisions. AS were permitted to impose customs duties for revenue and for the protection of infant industries as well as to follow any policy they chose in imposing customs duties against third countries. And no AS was bound to discriminate in favor of member states of the Community (by observing the rules stated above) if this discrimination were in contravention of its obligations under other international arrangements, e.g., the Conventional Basin of the Congo, U.N. trusteeship agreements.

The third principle, the right of nationals of any member country or AS to establish themselves in any other member country or AS has only been implemented in respect to the nationals of member countries desiring to establish themselves in the AS and, at that, only progressively and partially.

At present, the incidence of these measures is difficult if not impossible to perceive. Reservations and exceptions have been numerous and time lags have been long.

Nevertheless, it is necessary to reexamine the principles of association and the measures taken to implement them in the light of two circumstances: the accession to independence of the former French and Belgian dependencies since the treaty entered into effect and the possibility that the British dependencies (present and former) may seek to associate themselves with a Community of which Great Britain shall have become a member.

Before examining these new problems, an appraisal of the costs and benefits of the present arrangements is in order. Of necessity, it is tentative. The provisions of the treaty are ambiguous and have already been subject to reinterpretation. The arrangements are only progressively entering into effect.

Community aid to the AS has the fundamentally ambiguous quality of being, in theory, supplementary to the aid already regularly given by individual member countries. It is almost impossible to define "supplementary." There is evidence that the French bilateral contribution to those of the French dependencies which were included in the category AS declined from their 1957 level in 1958 and again in 1959. If so, it is not clear that the creation of the European development fund did any more than redistribute a part of the burden of assistance to the former French dependencies from France to Germany.

It is even more difficult to appraise the effects of the trade and payments provisions of the treaty.

The other five members of the Community have furnished a slightly higher percentage of French AS imports since January 1, 1958, very probably as a result of the first measures to increase and "globalize" allocations of the currency of other EEC countries to the French AS through the French exchange control

system. But the increase is relatively small. Member countries other than France have not increased their shares of the exports of the French AS. As yet, the French AS have benefited only to the extent that it is advantageous to them to import from Community countries rather than France or the rest of the world and then only to the extent of the modest increase in allocations of foreign currency for this purpose.

Various of the AS have taken measures to implement the right of establishment of Community nationals, but it is impossible to ascertain to what extent these measures have affected establishment.

Independence and association

The Treaty of Rome was signed by France on behalf of the AS when France was wholly responsible for their external affairs. Almost all of them have since become independent. All of those which became independent have notified the EEC authorities that they desire to remain associated with the Community, with the exception of Guinea. Yet their independence may affect not only their own views about association but those of France and the other member states of the Community.

To discuss the position of the AS themselves is to enter into the ambiguous intricacies of African politics. It is clear that French aid, French markets, and the aid and trade arrangements for which the treaty provides are powerful incentives to the governments of the AS to remain in close association with both.

The minor problem for the future is the restricted area in which the trade of the AS is likely to be channeled. There is no doubt that the EEC arrangements will broaden the patterns of trade of the AS. It is possible that it will restrict their access to outside sources of supply and other markets. Their access to sources of supply outside the Community is likely to be limited by quantitative restrictions unless measures of import liberalization toward third countries are taken which are a good deal broader than those which have been taken in the past. In any event, the large part which public expenditures play in total import demand, combined with well-established commercial and financial channels to France (and, of course, as the treaty is implemented, to other members of the Community) are likely, as in the past, to determine the directions of import trade. The directions of export trade will be determined by the willingness of the French Government to maintain the marketing arrangements and protective devices which are now in effect. These, and not the relatively moderate external Community tariffs on tropical foodstuffs reserve French markets to the AS. They are obviously, but equally certainly, advantageous for the large French commercial firms which do much of the import and export business of the AS. They have very few advantages for French consumers and taxpayers who pay the difference between the high prices which prevail for most of these products in the franc area and world prices.

The major problems lie in the relations among the AS, France, and the other members of the Community, and in the relations among the states of west and central Africa. There are unstable elements in the present relations between the AS and France. The independence of these new states is restricted by conditions which are attendant on French budgetary support. In some cases, the governments receiving this support are not firmly supported by their own people. The direction of change is fairly clear. As these conditions become irksome or politically embarrassing they are repudiated or removed. Their removal makes it impossible for the French Government to protect its own interests or those of its nationals. When these interests are impaired, the justification and support within France for assistance to the former dependencies is weakened. In a sense, the relations between the AS and the Community may take on some of the characteristics of their relations with France.

The Community fund was used, at first, largely to finance projects with social purposes; i.e., public education and health. More recently, the Commission has decided that they should encourage more productive investments. The authorities have begun to require that any projects for which an AS asks assistance from the fund be part of a coherent long-term development plan. Their behavior has not been unlike that of others whose job it is to administer foreign aid. And they have incurred somewhat similar reluctance on the part of recipients to change their national ways in order to secure *relatively* modest amounts of money. In addition, the operations of the fund have been slow, complicated, and inevitably burdensome to the recipients. This has reduced their enthusiasm for European as opposed to French assistance. Further, fairly widespread misunderstanding of the provisions of the treaty relating to trade and payments and deliberate misstatement of these provisions by some have caused recipients of aid to fear that their independence might be compromised by accepting it.

This last fear, a minor matter, has been aggravated by intra-African quarreling.

The more radical African political leaders have attacked the provisions relating to association as "neocolonialism." Although there is little to substantiate this charge in the treaty (except, to an extent, the unilateral nature of the provisions for the right of establishment) these charges have been echoed by more "responsible" leaders. They have become a fact of intra-African politics.

There is no doubt that the existing franc area arrangements coupled with association make it difficult, if not impossible, to work out intra-African economic arrangements which many Africans consider to be desirable in themselves and an important move toward African unity.

The interests and positions past and present of France, of the other members of the Community, and of the Community as a whole are even more difficult to appraise. Under the tent of French ideology were interest groups: manufacturers whose principal markets were in the AS; trading firms, mostly large integrated enterprises with their headquarters in France and branches operating down to the retail level in the back country of the AS; shipping firms; a small but influential group of mine and plantation owners; and, most important and numerous, French officials serving the French or Territorial governments. The immediate interest of all these groups was to maintain close political and economic ties, protected markets and unlimited convertibility into francs of the currency used in the AS at a fixed (overvalued) rate of exchange. These immediate advantages to some manufacturers were attenuated by the devaluations of 1957 and 1958. Liberalization of imports into the AS from other Community states is progressively reducing these advantages still further. These advantages and interests are changing slowly but the direction of change is apparent.

The future of association

It is unlikely, but still possible, that Ghana and Nigeria will seek association with the present European Economic Community and only a little less unlikely that they would do so if Britain were to join. It is almost impossible to predict what attitude the British territories in east Africa will take toward association. They are in an uneasy period of transition between internal self-government and independence. The high prices which they received for their exports until the last few years and the reserves which high prices enabled them to acquire in the middle fifties have declined. Their leaders have already come into contact with the authorities in Brussels. But they have met with other African leaders as well. And the position of the British Government, decisive until the day of independence, will be affected greatly by their own negotiations for entry into the Community.

To make all of these uncertainties even more uncertain, the convention, which lays down most of the conditions for association, expires at the end of 1962. There have already been proposals by the Commission for association during a further 7-year period. But they were made before the firm, formal British decision to seek membership was known. The present AS are relatively unimportant in politics and trade except to France. The association on similar terms of at least five additional countries whose combined population is almost twice that of the present AS and whose total trade is equal to that of the AS would make of association a more important international economic problem.

Apparently, the Commission has proposed to modify the existing arrangements in two ways. The level of protection for certain important exports of the present AS would be reduced. The conditions of aid would be a good deal more stringent.

There has already been a reaction from the AS. They are opposed to any reduction in the preferences on the markets of the Community which they now enjoy.

There have been fairly clear indications that the French Government would not be well disposed toward any changes which would reduce the advantages which the treaty gave to the AS or which the AS believe would reduce them. This last loose point is important because of the genuine difficulty which is involved in predicting the effects of tariffs, and France has until now been anxious to conciliate the AS whose adherence to French positions is thought to increase French influence on the international scene.

Assuming that the present arrangements were to be continued during the period 1963–69, what sort of problems would be involved if the British and former British territories in Africa were to become AS?

On the broadest assumption, at least Nigeria, Ghana, and the three east African territories—Uganda, Tanganyika, and Kenya—would stand in a relationship

very like that of the present AS to an EEC enlarged by the United Kingdom, Denmark, and, in all probability, one or two other members of the EFTA. The result would be a large area in Africa with fairly formidable preferential trading ties to the enlarged Community. Preferences for Community exports to these areas would be attenuated by the international arrangements (the residual effect of United Nations Trusteeship Agreements, the Congo Basin Conventions) which inhibit certain territories from discriminatory import policies. But "tied" Community aid and close institutional ties might increase preferences de facto and all of these territories would enjoy fairly substantial margins of preferences in the Community for their exports to the detriment of exporters in Latin America and Asia.

This situation presents a multihorned dilemma for the United States. There are two U.S. interests at stake at present. The first is access to markets in the AS. The increasing freedom of the AS to import from all of the member countries of EEC may further decrease their purchases in the United States and there is no reason to believe that they will liberalize their restrictions on dollar imports. But the total of U.S. exports to this area is small and most of the AS have a chronic deficit in dollars and sterling which is met by the French who allow them to draw on the franc area dollar pool.

If restrictions on imports from the United States were to be removed by the AS governments now that they have a voice in exchange control policy, and if the dollar deficits of the AS were to increase, the French would be almost certain to restrict or reduce this form of aid. Consequently, the AS themselves would be obliged to impose restrictions. Irritating though this may be, the markets involved are neither large nor promising enough for the United States to make any major move in this area.

The second U.S. interest is indirect. The United States is obliged to plead the cause of other exporters of tropical products in general and of Latin American exporters of coffee and cocoa in particular. There is some reason to believe that their income from exports to the European market would be reduced as the common external tariff came into effect.

However, this outcome is not inevitable and action now in fear of the worst in the future would be difficult to justify, especially when delicate and difficult negotiations are taking place in the area of action. On the other hand, exporters in African countries not associated to the Community are concerned over the effects of association on their export markets, and it is unwise for the United States to close its eyes completely to the problem. For the problem may become more acute over time, particularly if the pessimists about demand for tropical products are right. The entry of the United Kingdom into the EEC may greatly increase and intensify the problem. If a large number of present and former British dependencies were to be associated to the Community in the same way as the present AS, the stakes of the United States would be greatly increased.

Yet there is very little room for American maneuver if this is the outcome of the present negotiations between Great Britain and the Six. It would obviously be impossible for the United Kingdom not to see the advantages of association for Britain's friends in Africa (and perhaps elsewhere). Obviously the British could not agree to participate in a system which obliged Britain to discriminate against her own friends. If the Six agree, a vast preferential area, harmful to the United States and to friends of the United States would be created.

If this is the outcome, the only recourse for the United States would be to press for drastic reduction in the privileges of association, notably for reduction of the level of the external tariff. It is by no means certain that the Six (Seven, Eight, Nine, or Ten, according to the number of other countries which joined with Britain) would agree. But the United States would have some allies within the Community and almost certainly could obtain some satisfaction.

The situation is more likely to be less tidy than this. It is already clear that some African and many other Commonwealth countries would refuse to accept association. Britain, like the United States, will be obliged to deal with the possibility that some of her friends would be much more favorably treated by the Community than others. At the very least, the British would be likely to attempt to maintain the existing system of Commonwealth preferences for those of her friends who refused association. Be this as it may, both Britain and the United States would be better advised, in the interests of more equitable treatment for all of the producers of tropical products, to find ways of eroding the evils of association. This cannot be done all at once. But the intrinsic disadvantages of association outlined above, the trend of events, the interest of

outsiders, and the direct commercial interests of Britain and the United States, all seem to be convergent. They converge to the end of association, which was, originally, an ad hoc solution to a passing political dilemma. Of course association cannot be ended without some regard for the rights of associates. But these should be considered within a broader context: the creation of an economic order which would safeguard the interests both of producers and consumers of tropical products.

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