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ECONOMIC INTEGRATION OF WESTERN EUROPE

Mr. William Diebold, Jr.

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Reviewed by: Colonel P. B. Klein, USAF

Date: 17 May 1960

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24 March 1960

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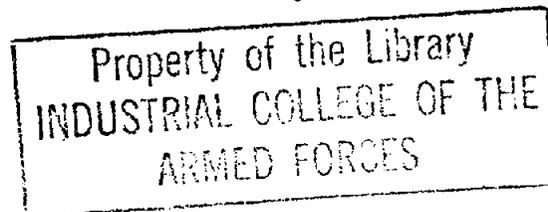
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## ECONOMIC INTEGRATION OF WESTERN EUROPE

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COLONEL HAWKINS: Good morning, Gentlemen: Today we take up the subject that is forever popular in all the newspapers ~~from day to day~~ and in fact in this morning's paper, ~~too~~, the Economic Integration of Western Europe.

To discuss <sup>this</sup> ~~that~~ with us today we are very privileged to have a person in the studies who is actively engaged/in this field for the Council on Foreign Relations.

It is a pleasure to introduce to the class Mr. William Diebold, Jr.

MR. DIEBOLD: Gentlemen: At the height of the Marshall Plan there was a story that was in very general circulation. Trusting that it has now gone quietly to its grave, I will try to resuscitate it for you. It concerned a young lady who had a bad dream in which she saw a figure standing by her bed. She said to the man, "What are you going to do now?" He said, "Search me, lady. It's your dream."

This was regarded by many as a proper expression of the relation of the United States to the Western European integration. It is true that there were moments at which the driving force for the Western European integration seemed to be partly in Washington and partly in Moscow. But things have changed since then, because, if there were pressures, they were pressures behind forces that had some life and strength of their own, and the process that we called Western European economic integration is

clearly enough now an essential European process in its aims and in its motor forces.

It is customary in talking about this subject to go back and mention the names of Charlemagne, Henry I V, Salis, and quite a few other people, and run down from there through Count Kutinoff Calaguy and Aristide Briand, but we haven't really got time for that sort of thing this morning.

If we look at this as only a postwar phenomenon, we needn't start back from the time during the war when people were beginning to worry about the postwar shape of things. And there were considerations of some kind of new Europe in which the parts would be more closely tied together than they had been for several centuries. Strains of thought along this line are to be found in the underground movements inside Europe and certainly among the governments in exile in London.

Nothing much immediate came of these things with one exception of what we now call Benelux, an agreement between the Dutch, the Belgian, and the Luxembourg governments in exile in London to create an economic union of their three countries. This took much longer to do, to carry out, than was anticipated. It turned out to be harder than many people thought it ought to be, to put together such small economies. The starting place turned out to be less favorable than was generally supposed. There was about an 8-month difference in the time of liberation between Holland and Belgium, and the conditions of the two countries at the moment of liberation

were quite different.

The whole history of Benelux is quite interesting, a small-scale study that has a good bit to teach us about the more general process of Western European integration, but, like so many bits and pieces, this whole story does not do little more than mention it at this point.

It was for its initial years quite exceptional, because, as each country of Europe came to liberation, it faced its own most pressing problems of reconstruction. Each government had its own political responsibilities, its own limited resources, its own needs to husband scarce foreign exchange, and then its relation to the United States, the primary source of reconstruction aid then, was essentially a bilateral relation. Almost the only exception to these things concerned the relief aid provided by UNRRA.

It is in this field of American aid that the turning point can be seen. This was, of course, in 1947, and was marked by the beginning of the Marshall Plan. Now, in my opinion, the reason that Secretary Marshall asked the countries of Europe that were interested in working together and receiving American aid to present a common plan and to do this cooperatively was less because there was a ~~genuine~~ desire for general European integration, as an aim of American policy, than for the fact that, with the realization that the recovery problem was so much larger than had been thought and that, if the U. S. was going to have to make a much larger aid contribution than had been expected up to that point, it was essential that European resources be maximized, that some total be envisaged, both for getting this

through the U. S. Congress and so that there was a general target for Americans and Europeans alike.

It was largely out of that exercise, the putting together of the estimates of European need for a period of recovery, that the concrete impetus for European economic integration came, because, during the summer of 1947, when these estimates which underlay the Marshall Plan were being made, the American officials who were working in Paris with the representatives of the European countries, explored fairly generally the various possible forms of cooperation, running up to a desideratum of a customs union. There was not very much real chance at that time of getting anything but broad and general commitments to any such objective.

What, however, did happen was the creation of a body, the OEEC, the Organization for European Economic Cooperation, which came, of course, to play a key part in the Marshall Plan, and which was also the center of European economic cooperation, and therefore of the steps toward Western European economic integration for a period of some time.

The most important work done by the OEEC over this period was in the liberation of intra-European trade and the creation of fluidity in intra-European payments. Both these things were obviously of great immediate practical importance to making the most use of Europe's own resources for recovery. They had a broader implication for the closer tying together of the European countries, which is, of course, the essence of the process that we call by this rather clumsy term, Western European economic

integration.

The first steps came by way of modest arrangements to make it easier to finance trade between the countries of the group. Subsequently this moved on to the creation of the European Payments Union, which was a very important organization indeed. It survived and worked well up until the early part of 1959, /because, when the European currencies became convertible at the end of 1958, there was no longer need for the special arrangements undertaken in the European Payments Union, and it was superseded by a looser arrangement called the European Monetary Agreement.

The two key features of the European Payments Union were the creation of the multilateralization of the trade debts, or the current trade transactions, of each country with the other 17 or 18 countries in the group. So that, instead of being debtor and creditor to this one, that one, and the other, you had this relation to the group as a whole, and therefore you broke down some of the most difficult bilateral barriers which had tended in the immediate postwar period to strangle European trade and to make it very difficult for any one country to operate with the economic flexibility and choice of alternatives that it needed to make the most use of its own resources.

Coupled with this was a system of automatic credits from countries to the European Payments Union, which, in effect, meant to all the other countries and from the Union to the country when it was in a debtor position.

The operation of this and the change from time to time of its rules played a really most important part in facilitating European recovery, and, in terms of the integration story, it was significant, because it created among these 18 countries a set of relations that were easier than the relations of any one of them to countries outside the area.

A parallel effort on the part of the OEEC concerned the removal of barriers to intra-European trade, especially quotas and import licenses. This could not be done by any formula as general as that of the European Payments Union, but a series of fairly difficult negotiations, the setting of step-by-step targets, a checking up, a confrontation of each government by its 17 fellow members, to say, "Why haven't you done more? What is your excuse?" had the effect over a period of years of removing quantitative <sup>high</sup> restrictions on a fairly/proportion of intra-European trade in manufactured goods.

Not anything like as much progress was made with regard to farm products, because we here encounter the familiar problem that we know in almost every country of the world of the special treatment that the farming part of the economy gets for economic and political reasons combined, and in Western Europe this typically is a matter of not being willing to subject important segments of the domestic agricultural economy to foreign competition on anything like as effective terms as you are often willing to subject the manufacturing part of the economy to. This is a matter to which we will come back when we talk about the present state of Western European

integration.

The OEEC had a number of activities in other fields, which we will skip over. They did not do some things which many people expected they would and for which some efforts were undertaken by way of coordinating the recovery programs of the member countries, guiding investment on a scale that assured the optimum use of resources, or in developing regular means of close coordination of national economic policies, particularly in fields of monetary policy, matters affecting inflation, employment, the business cycle, and things of that sort.

Now, the OEEC was an organization of governments. It worked on a virtually unanimous consent basis, except that, when once it had adopted programs like those of the EPU, or to some extent that of trade liberalization, it was possible to set up rules which could be applied by smaller groups. It did not have to be consent of every one of the governments, but, basically it was, what used to be regarded, at least <sup>as</sup> a normal kind of organization in which everybody had an equal vote and you didn't do things unless everybody was agreed on doing them.

Paralleling the experience of the OEEC, there was a good bit of thinking about European integration, political and economic. Some of it hinged just on this last point I have made about the need for virtually unanimous agreement to get many things done. There were many people who felt that this was not good enough, that the whole convoy would be slowed to the speed of the slowest boat, and that at least some of the countries in

Europe could go faster.

There were stirrings, there were discussions, there were proposals. It takes a long time to trace through them all. They had in common certain broad objectives--the economic advantages that were expected of some sort of economic integration. The word, "integration," dates, I believe, from the speech that Paul Hoffman made to the OEEC in the fall of 1949. There is a lot of room for arguing just what you mean by integration.

All of these ideas were of the same general cast. They were to remove barriers within the group, treating intra-group economic relations on a different basis from those that were either normal for one country in its relations with the rest of the world or that would prevail between this group and the outside world. Beyond this, they went varying distances as to how much of each economic activity was to be conducted on a common basis and how much was to be left on a national basis.

The aims of these programs, again, had a great deal in common. Anyone could see that, compared to the United States or the Soviet Union, the European national economies were small, and it seemed reasonable to suppose that the size of these two other large economies had something to do with their efficiency and strength. There were traditional arguments about the advantages to be had from eliminating barriers to trade. There were clear cases in some industries of the advantages of an economy of scale, if you could produce for a larger market. There were obviously

advantages in having a larger body of resources under your hands, whether you had to make adjustments to meet economic or political difficulties.

Politically there was another series of motives. There was a growing consciousness of the importance of building some sort of independent strength in Western Europe. This tended to be seen from this side of the water as a means of strengthening the whole free world against the Soviet Union. On the other side of the Atlantic it was often seen that way, but there was also a very strong current in many quarters favoring the creation of an independent force that would be in some sense in between the Soviet and the American poles.

The desire to provide a combination of haven and check on Germany was very important in this whole movement as well. Germany was split, but Germany was reviving. Its revival was necessary, politically and economically, for European strength. There remained a reasonable feeling in many parts of Europe and in this country as well that it would be better to be sure of Germany's links with the West by some new form of association than to let the new German power grow up on a basis in which its future attachments were left uncertain and in which it might even come to be in a free-floating position between East and West.

Now, you have discussed with others the process of political integration, the Council of Europe, Brussels Powers, and things of this sort. These have not had great immediate significance for the process of economic integration. So I will leave them out of account.

The new break-through, the beginning of the next important stage after the start of the OEEC, the next important stage in European integration, came with the proposal of the Schuman Plan by the French Foreign Minister, Robert Schuman, in May 1950. This, as you all know, was a proposal for the pooling of the coal and steel industries of France, Germany, and such other countries as were prepared to join, which in fact turned out to be the low countries and Italy.

This was a different matter from the OEEC in several key ways. To start with, it involved a smaller number of countries. The only other important possible members were Austria and Britain. Austria had no choice about joining at that time. Britain chose not to, for all the reasons which we will get to later on, that concern the continuing problem of the relation of Britain to continental integration.

The Schuman Plan concerned a limited sector of economic life-- not the broad sweep that is covered by general movements on trade and payments. It went away beyond trade in that, in order to realize its goals, it called for a fairly elaborate set of rules concerning economic behavior, limitations on what governments could do, injunctions to governments to do things, the creation of a body that would in effect be a new form of international control of business activity. It was, in other words, narrower in one respect than general cooperation on trade and payments, but much deeper in its cutting into economic life.

It had, of course, very important political aspects both in terms of

its attempt to deal with the French-German equation which is at the heart of so much of the story of European integration and also in the fact that it was regarded by its chief proponents as a first step to a much more general integration of Europe, and perhaps to achievement eventually of a United States of Europe.

In this respect, another key difference between it and the OEEC was that this went beyond the old-fashioned kind of intergovernmental arrangement and established, for certain purposes, at least, a so-called supra-national body, a group of men named, but not controlled, by the governments, who had real powers over some aspects of the coal and steel industries.

Now, in the nearly ten years since Schuman made his proposal, quite a history has developed in the European Coal and Steel Community. This is a subject that I have not been involved with, so it is hard for me to be brief. But let me try to say about six sentences about it and, if you want to pursue them, we can do that afterwards in the question period.

The plan, as put out in general terms by Schuman, was by and large accurately rendered in a treaty which came to be adopted by the six countries that I have mentioned. The organs of the community have been in existence since the early fifties, comprising the high authority, the supra-national body I spoke of, an intergovernmental council of ministers, an assembly, to which each of the national parliaments sends delegations, a court, which adjudicates disputes within the community, and a consultative committee in which employees, workers, and consumers in the coal and

steel industries meet to consider issues presented to them by the high authority.

Over a broad range of activities the treaty and its implementation made themselves felt most strikingly--through the elimination of tariffs and quotas on internal trade; trade among the six countries in coal and steel; through significant adjustments in transportation rates; through the adoption of rules about pricing practices which apply to producers throughout the area. There have been a certain regulation of cartel practices and the development of the whole merger movement in the steel industry, also a certain amount of international assistance for the adjustment of production in certain areas, particularly in coal mining, which had to be reduced as the result of the conditions in the Common Market. There has been a certain amount of international help to do this by stages and to provide the displaced miners with opportunities to find new kinds of work.

To a limited degree, there has been a common front of these six countries in face of the rest of the world on matters concerning trade in coal and steel, and a certain guidance inside the community for investment.

This sounds like a success story. It is in many respects. It is not entirely such a story. The operation of the Coal and Steel Community has changed the conditions in which coal and steel are produced in Western Europe. It has, however, not revolutionized this economy. Contrary to many of the fears that people had at the outset, there have not been large-scale

unemployment, major dislocation, and radical changes of this sort.

There are a number of factors that explain this. The general prosperity over much of the period, the expansion which made it easier for adjustment to take place through relative rates of growth, rather than through contraction, explains part of it. How important this was I think was shown when, a little more than a year and one-half ago, the position on coal began to change, and a kind of cumulative adjustment, which probably should have been made much earlier in Belgium, and to some extent in the German coal industries, began to hit them very hard as the demand for coal fell and surpluses piled up. Now, at a rather late date, some fairly painful adjustments in Belgium are being made.

Another reason for the nonrevolutionary effect is the moderateness of the policies that were introduced, and the speed with which policies were introduced to carry out the new treaty. Some of this was deliberate on the part of the agencies involved, because they knew they were testing a new kind of law, a new kind of international life. Some of it was just the natural result of the fact that you just don't change massive industries rapidly, and that no rate of introducing new policies is going to move them very fast. There is a strong momentum in existing industries, and a certain amount of national resistance to change, whether it is governmental or whether it is private.

All of these things helped to moderate the effect of this rather radical

approach to coal and steel problems. Nevertheless, it has gone on. It has some striking successes and large gray areas of uncertainty. It at least showed that there was a possibility of making major changes, changes that would have been unthinkable, not just a few years ago but even a few months before it was clear that the French really meant this when they proposed it. It was almost unthinkable that they should say they would throw in under the same national authority with the Germans their coal and steel industries.

It is important, therefore, historically, as one of the major marks in the progress toward Western European economic integration.

Now, it was, as I said, expected to be only a first step. The next step, which came a bit prematurely, from the point of view of many of those who were hoping to guide this process, concerned German rearmament, and was, of course, the episode of the proposed European Defense Community, on which the European political community was to be based; and one of the first tasks assigned to the European political community was to be the creation of a common market.

This whole structure of hopes collapsed when, after considerable delay, the European Defense Community was rejected by the French Parliament. There was a period of considerable uncertainty in which it was far from clear whether the next step forward would be another kind of limited economic integration, comparable in some sense to the Schuman Plan, or whether it would be a matter of drawing back, moving toward the

less drastic, more old-fashioned kind of agreement between governments on this, that, or the other specific thing to be done.

A combination of forces, in which the Suez crisis played a part, led to the development and then the acceptance of a set of proposals for a common market, again among the six countries that had formed the Schuman Plan. The steps by which this common market is to be achieved are probably well known to you.

This is the current phase that we are in, the phase of the European Economic Community, which reverses the approach of the Schuman Plan which created a common market for coal and steel immediately--almost immediately--by removing the tariffs and quotas at the outset of the process, and making the adjustments afterwards through international assistance, moderation of subsidies, and so on. The European Economic Community works the opposite way. It approaches the removal of trade barriers by steps, under its original plan. This would take place over a period of from 12 to 15 years, at the end of which there would be no internal trade barriers, and a common tariff, on imports from the rest of the world.

Recently there have been several sets of official proposals to speed up this process. This has resulted, at least in part, from the fact that European business acted as if the step-by-step approach had already been carried out and that complete free trade inside the area was just around the corner. In other words, the response outran the stimulus, and, as a result of this, instead of there being strong resistance to the step-by-step

approach, which many people envisaged, there was a kind of psychological upsurge that led to investment, expectations of growth, and a certain amount of business reorganization, stretching across national lines, which made it begin to look feasible to bring the common market into full existence sooner than originally expected.

I mentioned the fact before that agriculture was always an exception. It is an exception here, too. The creation of a single market through the removal of trade barriers does not apply to agricultural products. These are being approached separately by the governments and by the international agencies created through this new treaty. Here they are only at the stage of arguing about proposals. They will not end up with anything like a competitive market for agricultural products inside the community, one may be rather sure. The question will really be in spreading and enjoining each national system of agricultural protection, support, assistance, to all the others. Can this be done in a way that trades some advantages, or is it going to be a matter of burdening all six with the burdens that each one now carries separately?

The proposals that are being discussed look like workable proposals from the point of view of machinery and principal. They leave out the questions of how much aid will be given to agriculture. They speak of higher European agricultural prices than world agricultural prices; but how much higher, and how the difference in cost is to be paid, are things that are omitted at the present stage of discussion.

Now, I won't try to describe the other features of the European Economic Community, outside of the quite specific provisions on trade which I have mentioned. The provisions could perhaps be characterized as agreements to work toward a higher degree of integration and coordination. Certain principles are set out in the treaty; certain procedures are established, but they are procedures of consultation and negotiation—not step-by-step programs of the sort that exist for the removal of trade barriers. There is a certain amount to be said about forces moving the six countries toward this broader area of a broader amount of integration. There is a little bit to be said about what has in fact been done. But, at the present stage of the process, it seems to me that all one can do is to leave this up in the air as something for the future. One can't make a precise statement on anything like the same footing that one can on the development of the trade integration.

In considering the future of the European Economic Community, you need to look at a whole series of problems, of stresses and strains, of unanswered questions. These can be conveniently divided, in my opinion, into largely internal and largely external ones. You will see in a moment that these are closely interrelated. Because of the lateness of the hour, I'll do nothing more than list these problems. I think the statement of them will give you enough of an indication of what the nature of the problem is. If you want to go into them in more detail later, I'll be happy to.

Let me talk now of the internal problems of the European Economic

Community. There is a conflict of interest between those who are for high and those who are for low tariffs on the community's imports from the rest of the world. There is a division here between the Dutch and the Germans on the one hand and the French and Italians on the other. There is concern partly for the effect of high tariffs on costs inside the community. There is concern also for the effect of high tariffs on the trade of outside countries which, if they lose markets in the community, may in turn buy less from the exporting countries of the community.

There is a special, but related, problem of the terms on which Saharan oil will be brought into the common market. The French would like to see it have a preferred position. If that means raising the cost of oil to countries like Germany, Belgium, and Holland, there will be resistance.

Agriculture I have spoken about. There is within the field of agriculture an obvious conflict of interest between those relatively few areas, mostly in Holland, that are low-cost and efficient agricultural producers, and the protective producers of the rest of the community.

On the broad question of coordinating economic policy over a larger field in trade and payments; there is on the one hand worry in countries, like Germany, that the only way coordination can be carried out will be for the tight money, very orthodox financial policy in Germany to be diluted, so that Germany and the people feel a kind of infection from what they feel are looser economic practices in other countries, particularly, of course,

the worry about importing inflation from France or elsewhere.

There are conflicts here between those who talk about too much state control and those who talk about too much lack of control. These debates take place within countries and they also take place among countries in the European Economic Community.

There is an open question about the relation of the African countries to the European Economic Community, because, when it was set up, everyone acted as if France and Belgium could speak for the African territories. This statement is rapidly becoming untrue. The question, therefore, of the future relation of the African territories to the community is, in my opinion, wide open.

There is a whole range of political problems, which were probably discussed in your other sessions. The small powers, being the Benelux countries, are worried about the domination of the community by France and Germany. They, and to some extent some groups inside Germany, are worried about whether the economic community is in fact supporting a sound relation between Bonn and Paris, or whether the combination of General DeGaulle's apparent desire to be the spokesman for the community in the political councils of the world and Chancellor Adenauer's willingness to accept this relationship because of the key position, the dominant priority, it gives to French-German relations in his policy, whether the interplay of these two motives, successful as it has been up until now, is taking place at a price in terms of the economic interests of the community that

raises questions for the future specifically.

The whole process of negotiating the treaty involved a series of concessions from the other countries, especially Benelux and Germany, to France on a number of economic questions, which came to be regarded as economic prices that were paid for the broad political advantage of, in fact, having a community. A certain amount of this process still goes on. There is a division of opinion in Germany about the extent to which Germany should make what are seen as economic sacrifices for the advantage of keeping the community.

A whole series of questions arises along these lines which I think are probably crucial to the future shape of what happens. They are obviously intimately related to the question of who makes the decisions in the community--to what extent do the international bodies that have been set up become the leaders, and to what extent is it a matter of intergovernmental agreement at each important stage. The community is a mixed system, just as the coal and steel community was a mixed system. On paper the balance is different. The balance in the coal and steel community on paper was in favor of the supranational high authority. On paper in the new one, the powers of the intergovernmental bodies in relation to the so-called supranational commissions are somewhat larger. However, the new paper is very close to the old practice, and it is an interesting question as to whether a certain level has been achieved here of a new kind of mixed system of intergovernmental relations that will in fact be the motor

through which economic integration is carried on.

The other questions I mentioned about the future of the economic community are, of course, its external relations. These I think you are probably more familiar with than some of the others. Again a list will have to suffice.

Will the community have a liberal trading policy in relation to the rest of the world, or will it be protectionist?

At what level will its external tariff be set?

Should there be a special relation between this community of six and the other European countries? This is where the whole story of the abortive free trade area comes into the picture. I think you probably know the outlines of it very well. The British proposed a relation between themselves and other countries and the community of six which would not be as close as the relation the six had among themselves but would establish free trade among them without having a common relation to the rest of the world. This was rejected. Since then it has been an open question of whether any sort of special bridge could be built between the European neighbors of the six and the six.

The neighbors, seven of them, have formed their own Free Trade Area, largely for bargaining purposes. Negotiations go on at the moment. It is anybody's guess, but I would say my guess would be that the drift is quite clearly away from there being a real free trade area in anything like the sense the British originally proposed. What is quite open is whether there

will be a set of special arrangements or whether the six will hold to a position that they have made fairly clear so far of taking care of any especially difficult problems by negotiation and otherwise regarding the other countries of Europe in the same category as they would regard the United States and other countries all around the world, as the outsiders, with whom you may have good economic relations but who do not become members of the club.

In these two sets of lists that I have done so very briefly of the internal problems and the external problems of the European Economic Community, you have, in one degree or another, I think, all of the strands of development that will be pursued in the years to come. Quite clearly, the extent to which one or the others follow is a matter of courses selected by governments which have not totally lost their identity by becoming members of the European Economic Community; they still have separate political responsibilities; they respond to separate electorates. The responsibilities of a government these days extend over a large area of economic life.

So that the kind of economic integration that we have in Western Europe is something quite different from anything we have had before in its degree of intensity, the degree to which matters of common interest in the field of economics are handled by international agencies or intergovernmental bodies. But the extent to which each of these economies has merged into all of the others, so that it has lost its possibility of separate action, remains to be seen. It certainly, as of this day and hour, is not so entwined with the

others that it cannot break loose. Whether the processes will go that much farther depends very much on the answers to some of the questions I raised.

A second question for the future concerns the significance of this kind of regional economic integration for the United States, for the structure of world trade in general, and this hinges very largely on the question of the interplay of liberal and less liberal forces within the European Economic Community and the kind of negotiations, the kind of bargaining, that this country, that Britain, that other neighbors, and that other countries the world round can carry out with this new entity, whose international role is only now about to be tested.

Thank you.

COLONEL HAWKINS: Gentlemen, Mr. Diebold is ready for your questions.

QUESTION: Sir, is our U. S. position consistent? First we send Mr. Dillon over to Europe to try to pull EFTA and the Common Market together. Then, last weekend, the President tried to accelerate the removal of the tariff barriers within the Six, which apparently displeased the European Free Trade Community. This seems to me to be a very definite conflict. How come, in a short space of time, we did that?

MR. DIEBOLD: Our position on this whole later stage of the relations between the Common Market and the Free Trade Area has been a little bit peculiar, because, partly because, it has developed, so far as any public

policy is concerned, only quite recently. For a very long period of time, up through the failure of the European Defense Community, the U. S. had a quite active role in the steps toward Western European integration. We got our hands burned on that one, and, after that, the policy took a fairly sharp shift in the direction of saying that these things can be done only by the Europeans. We can encourage and we can help, but we can't play anything like the role we played in the European Payments Union, and so on.

This policy was successful during the period of the Coal and Steel Community, in which we played a very secondary role, except at one key point during the negotiation of the treaty.

Since the development of the Common Market, we, having taken for years the position that it was favorable to the development of integration in Europe, cheered, but didn't have to do very much beyond that. When the failure of the Free Trade Area negotiations came, there was considerable feeling in this country. By "considerable feeling" I mean that those who look at these things, a very small part of the population, some of them, had feelings that it was time that we really expressed concern about the implications of the so-called split in Europe.

For a long time there was no clear-cut policy on the part of this Government. Then, as you said, the Dillon mission in the latter part of last year marked the public registration of policy. What that policy was, is, I think, a little more complicated than what you described as

being a means of bringing the Six and the Seven together. I think this is part of the reason that the question of consistency which, on the face of it, is a question as you raised it, comes up. What in fact Mr. Dillon did was to say that the question of the relation between the Six and the Seven must be looked at in a larger framework, the framework of world trade, the framework of U. S. trade and balance of payments interest.

The committee that was set up to do this was interpreted by some people as having the mandate of supervising or starting up again the negotiations for recreation of a Free Trade Area. I think that is not a proper reading of what it was intended to do. It could have done that if the parties were that interested, and I think the British hoped that that was what it was going to do, because this would have had the effect of giving U. S. support to the British, Austrian, Swiss, and Danish position that there should be a special relation between these countries and the Common Market.

The position of the Common Market countries was one which I think I mentioned in my talk, that there was no need to open this kind of negotiation, that they would concern themselves with any hardship cases and talk about concrete issues as they came up, but without making a new agreement. If this is correct, the proper interpretation of what the committee is supposed to do is to damp down any political fires that come up. One reason for this was, the dispute between the Six and the Seven, especially between the British and the French, was getting sharp enough so that they were

concerned that it would have a bad effect on NATO relations and that generally it was getting politically risky to let this kind of an economic issue become a subject for so much controversy.

So the role of this committee would be: First, to damp down that kind of political excitement; and, secondly, the related matter of helping to take care of what I call the hardship cases. Now, if that is a correct interpretation--and this is my interpretation--then there is no inconsistency with regard to blessing the speeding up of the Common Market.

I think you understand that at this stage of the game these are proposals that have not yet got full governmental support among the Six. Therefore, the fact that the President made this statement favoring them in a communique, after he talked with Adenauer, is a clear use of American diplomatic influence, such as it may be, to help bring this about, and the point of pressure is very largely on France, and to a less extent on the Benelux countries.

It seems to me that, once we have accepted the general position that we have, of favoring the Common Market, it is impossible for us not to favor a speeding up of achieving the Common Market, because it was obvious that the real risk at the beginning was that it would never be achieved, that the obstacles would show up. And, clearly, if you can reduce the period of time, you reduce the risks that the obstacles will prevent the progress.

It is true that it sharpens some. It also speeds up the point at which the discrimination against outsiders, including us, of course, becomes perceptible. So that the strength of the reaction of the Seven is, I think,

to be explained, though I am guessing here--by their feeling that we are making it clearer than they hoped we would that, if there is a choice between holding the line of the Six and pushing the Six toward concessions to the Seven, we will go along with the former.

QUESTION: My question is related to that. Apparently, if we assume that this European union is a good idea, then we are at a sort of cross-roads where two events are important. One is extending the economic cooperation of the Six to a political sphere; the other is trying to bring the Seven in with the Six. Now, of these two, which do you consider the more important to do first, now?

MR. DIEBOLD: I think that is a very hard question. Up to a point you already have a degree of political cooperation among the Six, which is one of the reasons why you don't have more economic cooperation between the Six and the Seven. That is to say there were, certainly, difficult economic problems in trying to join the Common Market to a proposed Free Trade Area. These were probably not the key reasons for the failure of the negotiations. There has been from the beginning a fairly strong political element in the movement toward integration among the Six; and the British holding back from this movement has been an unwillingness to accept the political goals of the Six. It is vague, but it runs around the concept of a European power, which is something different from the separate national ones, and which the British have always felt would pull them into a more enclosed European position than they prefer. On the Continent

the British motives are suspect. The continental countries think that the British, in proposing the Free Trade Area, was interested not only in getting undiscriminatory access to the markets of the Six but probably wanted to prevent the relation between Bonn and Paris from becoming as close as some people hope it will become.

Therefore, the choice is probably not between going ahead with political cooperation of the Six or with bringing the Seven in. I think your point is a good one in that there is an element of emphasis to one direction or the other, depending on how these problems are tackled. I have felt that we ought to take it for granted in our policy that the Six were going ahead, that the Common Market exists and will continue to exist. Without doubt, commercially, how much farther it will go remains to be seen. This clearly is something that can be done only by the countries involved. Our attitude toward it, while it might be benevolent, cannot be more active than that.

The extent of political cooperation is again something that is only partly linked with degree of the economic cooperation. Excepting that, our concern should be that the level of discrimination against the outside world is minimized. I am not thinking here now primarily of the British. Actually, the Danes, the Swiss, and the Austrians have a much larger commercial stake in the Six than the British do. But, of all countries, if it were possible for a much larger area of free trade to be created by an

agreement in Europe, I think our calculation would have to be to what extent enlargement of the area damages the U. S. This is something that none of the exercises that I have seen has been very persuasive on. So that I don't think we really have to make this sharp choice that you were proposing, but I may be wrong about that.

QUESTION: I had a long question, but this question can be answered yes or no. This pertains to the relationship between national sovereignties and the Common Market authority. Under the terms of the treaty the authorities of the Common Market have jurisdiction so far as matters pertaining to economics are concerned. Is it likely that, in view of the competition between the inner Six and the outer Seven, the national sovereignties will honor the treaty?

MR. DIEBOLD: I thought I was going to be the only one who would know whether it would be answered yes or no. This is the problem. The competence for the economic problems is divided between the organs of the community and the governments. Within the organs of the community it is divided between the supranational commission and the intergovernmental council of ministers. So that there is not a sharp distinction between saying that the community is running some things and the national governments are running others. In practice, it seems to me, they will have to work on some sort of cooperative basis. I don't see a great problem here along the lines that you indicate. The competition between the Six and the Seven, if anything, would seem to me <sup>to</sup> tend to strengthen the cohesiveness of the

Six. I don't see that it may at any given moment pose a problem for any given country. It is not easy for me to see. I would not see a failure to adhere to the treaty arising from that unless the conflicts that I spoke of earlier--the conflicts and the stresses and strains inside, the conflicts of interest, about what kind of relations with the outside world they should have--could break up the community. I don't think they will, because I think that the political desire, particularly on the part of the French and the Germans, not to let this fragment entirely is such that they will continue to get a working compromise.

This speeding up of the community that we spoke of before also entails as part of its compromise a 20 percent reduction in the external tariff in order to meet a balance inside the community of those who want <sup>a</sup> lower external tariff and those who want to increase the discriminatory feature.

So I can't answer that question yes or no because I find it a little hard to pose it to myself in those terms.

COLONEL HAWKINS; Mr. Diebold, on behalf of the Commandant and the students, we thank you very much for being with us today.

MR. DIEBOLD: Thank you.