EUROPEAN ECONOMIC INTEGRATION

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TABLE OF CONTENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF TABLES

INTRODUCTION

The process of economic integration presently taking place in Europe constitutes a gigantic and revolutionary step for this traditionally nationalistic area of the world. In terms of the economic and political composition of Western Europe prior to World War II, what is happening in these countries at this time verges on the miraculous. Of equal importance, however, are the implications which these developments hold for other trading nations of the world. Canada, as a leading world trader is understandably concerned as to the possible effects of these developments upon its foreign trade.

The point of this research is twofold. This study is directed to establishing both the nature and implications of the process of economic integration taking place in Western Europe.

Recent developments in Europe have led to the formation of two separate trading groups. The first was the European Economic Community (EEC) which linked France, Germany, Italy and the Benelux countries in an economic union. The Treaty establishing EEC provides for eventual free trade amongst member countries, a common external tariff and complete economic unification under supra-national institutions. In effect, when Treaty provisions become fully implemented, these countries will be only one step removed from political confederation.

Other countries of Western Europe, while admitting the potential benefits of economic integration, did not wish to sacrifice much of their political and economic autonomy as required by that economic unification. Thus, the United Kingdom, Sweden, Norway, Austria, Switzerland, Denmark and Portugal decided to form a free trade area known as the European Free Trade Association (EFTA). While the EFTA calls for the abolishment of tariffs and other impediments to free trade amongst member countries, it does not provide for the establishment of a common external tariff, nor does it provide for eventual economic union. Member countries will retain their individual external tariffs for imports originating outside the free trade area.

Although the introduction of EEC is looked upon as a most significant economic, as well as political development, the numerous preliminary undertakings in economic cooperation in Europe cannot be ignored, since it is due, in great part, to the experience derived from their successes and shortcomings that this latest, and most ambitious step was made feasible. It is therefore of great importance to study what previous developments led to, and rendered possible, the implementation of EEC, and which lent economic logic to the formation of EFTA. A study of the various preparatory schemes is evidently a prerequisite to a sound understanding to present happenings in Europe.

Another aspect, which is just as important and meaningful as past experience in economic cooperation, is the evolution of economic thinking, reflected in government policy, which led these countries to choose economic cooperation and integration rather than nationalism and protectionism. Thus, although one of the main points of this research will be to determine the nature of EEC and EFTA, an attempt will also be made to discover the nature of earlier developments, and their contribution in making these latest steps a reality.

The second point of this study is to show the implications of these trading and economic developments in Western Europe upon Canada's foreign trade. Since these countries constitute important markets for Canadian products it follows that changes in trading patterns will undoubtedly have meaningful effects upon Canada's future export prospects. The analysis undertaken is not intended to study this aspect of Canadian exports on a product-by-product basis, but rather it is intended to gauge whether or not economic integration in Europe will prove beneficial in the long run to both European and Canadian economic strength and stability, and to world trade. Briefly, therefore, this study is intended to point out the full nature of the changes which are taking place in Western Europe and to determine what benefits may be derived.

The approach used in the exploration of the problem is threefold. The empirical approach is used with respect to the study of the evolution of economic thinking which gradually, in response to the problems of a changing economic setting, passed through phases of free trade, protectionism and bilateralism, regionalism, and in-today's refined form provides justification for economic integration. The second approach is historical, with respect to the description of the various steps preceding the formation of EEC and EFTA, including the description of these two most recent developments. The third approach is analytical, with respect to the implications of these developments for Canada and Western Europe.

The general problem of economic cooperation is not a new concept for European countries, but it is one which inherently contains important political considerations, and thus has always received much attention in the literature. In the postwar period considerable body of literature, both official and interpretive, has emerged based on the development of institutions for closer economic cooperation. However, the main characteristic of this literature is that it covers only one aspect or one institution, or at the most a few, at one time, without providing any relationship between the numerous developments in the field of economic cooperation. The problem of economic integration, as such, is much more recent, having been brought to the forefront by the formation of EEC, but already the literature is voluminous. Unfortunately, the topics are selective, some dealing with the institutions, others with the meaning and implications for specific areas of trade. Except for a few articles in the professional economic literature and in government publications, the Canadian position has not been explored. One purpose of this study is to combine the various partial approaches to the problems of economic cooperation and integration in Europe and to provide, as much as possible, an overall picture of the present state of practical developments and their implications for Canada.

CHAPTER I

BACKGROUND TO CONCEPT OF ECONOMIC INTEGRATION

A. Voluntary Economic Integration

Voluntary economic integration amongst countries is a relatively new economic policy concept today only inasmuch as its meaning has been adapted to fit a new set of circumstances. But economic integration often forcibly imposed in its wider sense is a concept as old as wars, colonizations, annexations or confederations. The fruits of the victor in war have always included economic control and, if desired, integration; the growth of the Roman Empire contained obvious signs of economic integration; the defeated country could expect that its economy would be integrated, to some degree at least, with the economy of the victors; a successfully administered colony formed an integral part of the mother country's economy - the colony supplied the raw materials, or precious metals, and provided a market for the mother country's finished products. The mother country supplied the investments, and their risks could be considered almost as safe as those involved in domestic investments, although they usually were more remunerative. Annexation of one country, or part of a country, by another most obviously includes some form of economic integration, while in confederation voluntary economic integration is always one of the basic considerations.

The rise of Germany as a great economic and political power near the end of the nineteenth century coincided with such a process of economic and political integration. Economic unification was achieved through the Zollverein, the German customs union of 1830, which was completed by 1840. Friedrich List, who made the major contribution to the establishment of this customs union, conceived of economic unification as a prerequisite to sound national economic development.[1] In his view, every nation should follow a policy of free trade only until it had advanced to the point where it could undertake manufacturing for itself. At this stage of development, a system of protection should be employed to allow the growth of domestic manufacturing industries. When such industries had reached the stage where they could meet foreign competition, the national policy should revert again to free trade. Although this - his doctrine of "stages" of economic development - was not novel as a theoretical economic concept, the practical conclusions he drew from it for Germany proved beneficial. He became convinced that Germany had reached the stage where further

[1] Joseph A. Schumpeter, History of Economic Analysis, New York, Oxford University Press, 1954, pp. 504-505.

economic progress would require the establishment of an extended and conveniently bounded territory, together with a vigorous expansion of manufactures and commerce throughout the territory. The practical solution was to introduce judicious protective legislation within a customs union comprising all German lands. The successful application of his ideas to the formation of the German Zollverein undoubtedly laid the necessary economic foundation to the political unification of Germany in the Reich established by Bismarck in 1870.

However, despite the familiarity of the concept of economic integration in its wider sense, the current meaning which it connotes differentiates it from all past experiences. In its present day usage "economic integration" implies voluntary cooperation of two or more countries with each other; it excludes the sovereignty of one over the other as in the case of conquest by war, colonization or annexation; and it excludes any immediate political integration as in confederation. It thus becomes a new concept whereby autonomous nations desiring to preserve sovereignty are nonetheless ready to integrate "economically". It is a new concept because it implies that, although it is desirable to remain politically independent, it is equally desirable to integrate on a cooperative basis for economic reasons.

B. International Economic Interdependence

The recourse to economic integration as a solution to various economic problems is supported by past international trade theories and empirical studies. It is based on the belief that this sort of arrangement will provide both, the advantages to be gained from free trade - at least on a regional basis, and the benefits of increased strength vis-a-vis competitors. That economic integration is today, for certain countries, a desirable economic goal implies of necessity a changing outlook towards international economic interdependence.

Adam Smith in his "Wealth of Nations" provides a good insight into the classical approach to international interdependence. In part he contends that "----the natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them".[2]

He accepts the economic dependence of one country upon others as a fact and bases this dependence upon differential costs. Such interdependence is quite obvious when dealing with agricultural commodities and industrial raw materials, since the inequalities are due to natural advantages

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[2] Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, Edwin Cannan Edition, New York, The Modern Library, 1937, p. 425.

not easily overcome. But even in the more complex international transactions of industrialized nations, where natural advantages are not so easily discernible, economic interdependence is not eliminated. To the contrary, the interdependence reflected in the level of trade amongst industrialized countries, increases with the growth in domestic industrial activity. Until the collapse of international trade in the early 1930's, the growth of manufacturing sector in industrial countries far from rendering these countries independent of foreign trade in manufactured articles, stimulated the import of such articles.[3]

The growth of both manufacturing activity and imports of manufactured articles in the five industrialized countries covered by Table I indicates a certain parallelism between these two factors. From the period 1881-1885 to 1911-1913 growing domestic manufactures were generally accompanied by increased imports of manufactured products in each one of the countries covered. The decline in manufacturing activity in France, Germany and the United Kingdom during the period 1921-1925 was equally accompanied by a fall in imports of manufactured products into these three countries. On the other hand, in the United States and Sweden where domestic manufacturing activity did not decline during this

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[3] League of Nations, Industrialization and Foreign Trade, Economic, Financial and Transit Department, Geneva, 1945, pp. 76 to 81.

TABLE I

Comparison of Imports of Manufactured Goods to Manufacturing Activity
(Index Numbers: 1913 = 100)

	France		Germany		U.K.		U.S.A.		Sweden	
	Imp.[1]	Mfg.[2]	Imp.[1]	Mfg.[2]	Imp.[1]	Mfg.[2]	Imp.[1]	Mfg.[2]	Imp.[1]	Mfg.[2]
1881-1885	52	41	45	27	44	57	59	24	47	18
1886-1890	48	44	52	34	50	61	63	32	58	23
1891-1895	48	50	51	40	58	65	61	38	61	33
1896-1900	49	60	54	56	64	74	53	45	68	58
1901-1905	62	64	64	69	89	77	69	66	76	70
1906-1910	82	80	85	81	81	83	88	79	86	84
1911-1913	106	97	97	97	96	93	95	92	93	95
1921-1925	54	95	68	78	72	76	95	129	105	96
1926-1929	61	131	95	112	112	93	140	164	154	134
1930	98	140	87	102	119	91	112	148	199	154
1931-1935	71	114	61	91	83	92	78	118	159	161
1936-1938	52	118	50	138	92	122	94	167	254	223

1 Quantitative value of imports of manufactured articles.

2 Quantitative value of manufacturing activity.

Source: League of Nations, Industrialization and Foreign Trade, Geneva, 1945, pp. 130, 162, 163.

period, imports of manufactured articles were maintained. The 1926-1929 period shows increases over the previous period in all five countries, for both domestic production and imports of manufactures, whereas the decreases experienced in 1930 by Germany and the United States and the increases in France and Sweden lend further support to the existence of this parallelism. The experience in the U.K. is the exception, however, since a slight decrease in domestic manufacturing in 1930 from the previous period, was accompanied by a slight increase in imports.

In the two sub-periods indicated by Table I following the year 1930 the relationship between production and trade appears to have been severed in those countries which took steps to develop their manufacturing at the expense of imports. The increased domestic manufacturing activity in France and Germany during the period 1931-1938 was accompanied by a decrease in imports of manufactured products. In the United Kingdom, during this same period, a record level of domestic manufacturing activity was accompanied by only a small increase in imports. The protectionist policy of the United States is also indicated despite the growth in imports of manufactured products into that country during that period. While its manufacturing activity was slightly higher than the level reached in the 1926-1929 period, the index of imports decreased from 140 to 94. Amongst these five countries only Sweden continued the growth pattern experienced prior to 1930.

It would seem, therefore, that the self-sufficiency which could be assumed to grow with industrialization is evidently a fallacy - unless it is an imposed self-sufficiency through high tariffs, quotas and other barriers to trade.

C. International Trade and the Classical Approach

Despite the fact that certain countries may have originally sought industrialization as a means to increased self-sufficiency, this very development led to increased international interdependence; and as international trade grew both in volume and in complexity, classical theory of international trade, mainly based on Ricardo's theory of comparative costs, found itself increasingly wanting in the face of practical development.[4]

According to classical theory, free trade enabled each country to specialize in the production of those goods which it could produce relatively cheaply and import those items which foreign countries could produce at a comparative advantage. In theory, therefore, free trade led to the optimum allocation of resources and to some form of international

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[4] Stephen Enke and Virgil Salera, International Economics, New Jersey, Prentice-Hall, 1947, pp. 201 and seq.

economic equilibrium based on the rules of the gold standard. In this way any international disequilibrium could be rectified through readjustments in the quantity of money and the price structure in the domestic economy. Thus, stability in the domestic economy was a secondary consideration to equilibrium in the world economy.

Classical theory of international trade assumed that domestic considerations, such as full employment, distribution of income and price stability could, in effect, be secondary to objectives of international equilibrium. It emphasized the role of money flows and their impact upon corrective price adjustments, and the restoration of a competitive pattern of international prices and costs, while practical developments placed greater emphasis on the mechanism of income transfers and their impact upon domestic economic activity and employment. This did not weaken the classical views as to the effectiveness and equilibrating tendencies of balance of payments adjustments, but it raised serious doubts about the theoretical desirability and practical acceptability of such mechanism wherever its main burden fell upon domestic economic activity and employment.

In supporting free trade, the classical approach was increasing the vulnerability of one country to the economic conditions of its trading partners; and this, together with the general "laissez faire" approach to domestic activity, provided no defense for the domestic economy against externally produced instabilities. A study made by the National Bureau of Economic Research shows the parallel movements in business conditions in seventeen countries of the world between 1890 and 1925.[5] It is evident the gold standard system linking these countries contributed a great deal to this parallelism, through the adjustments that this system required of each domestic economy, especially in their price structure, in order to reach a position of equilibrium vis-a-vis the rest of the world. Despite certain irregularities, a general tendency towards parallelism in the trends of business activity - depression, recovery, prosperity and recession - is conclusively demonstrated by this study. The intensity, timing and importance of cyclical movements varies from one country to another, but it is the exception rather than the rule for any country to have remained unaffected by major booms or depressions occurring within the economies of its trading partners.

However, the increasing importance of domestic economic considerations in the nineteen thirties necessitated certain rigidities in internal price, cost and wage structures. These latter factors could no longer be submitted to the

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5 League of Nations, Economic Stability in the Post-War World, Department of Economics, Geneva, 1945, p. 88.

external fluctuations inherent in free trade policies under the gold standard system. Some solution was necessary to lessen the impact of international adjustments upon the level of domestic economic activity and employment. International trade theory could no longer concern itself strictly with problems of trade, but had to give increasing consideration to the problem of vulnerability of each domestic economy to the soundness or instability of its trading partners.

D. The International Monetary System

Although the gold standard was a method of relating the value of national currencies to each other it was, in effect, far more than just a "world currency arrangement". It was a system which provided the almost automatic co-ordination of the multitude of national economies and national economic policies; it was in fact the framework of an integrated world economy. Consequently, as demonstrated by the experience of the thirties, the problems raised by its breakdown could not be solved by monetary reforms alone.

The gold standard system had two distinctive features. First, it provided a fixed value for all national currencies in terms of gold. This meant that any disequilibria in the balances of international payments could not normally be corrected by adjustments in exchange rates, but had to be corrected by adjustments in national price, cost, and income levels to the fixed exchange rates.

The other, perhaps even more essential, feature of this system was its inherent relationship to a competitive market economy within which the numerous adjustments to economic change could be absorbed. To perform its function as a world monetary system and co-ordinating mechanism, the gold standard required adjustments of balances of payments to every change in volume and flow of international trade and international capital movements;it necessitated adjustments of national price, income and employment levels to the requirements of equilibrium in the balance of payments; it also required adjustments of the volume of production of particular goods and services and of the amounts of capital invested and the number of persons employed in particular industries to meet all the aforementioned international economic factors, such as balance of payments equilibrium.

It is apparent therefore that as long as the gold standard functioned, the countries accepting it were, in fact, voluntarily surrendering a substantial part of their autonomy in determining their domestic economic policies. It follows, therefore, that once enough countries would refuse, even if only tacitly, to follow the "rules of the game", the system would inevitably fall.

E. Breakdown of the Gold Standard

Although the breakdown in multilateral foreign exchange convertibility can be partly attributed to psychological factors, mainly a general loss of confidence by more and more countries in the existing system, several other more tangible causes are also discernible. Gold stocks held as foreign exchange reserves were becoming increasingly unevenly distributed in favour of the United States. This unbalanced distribution was mainly due to the failure of most countries at one time or another to observe, in their internal monetary policies, the rules of the gold standard system.[6] Under a system of fixed exchange rates such as the gold standard imposed, the maintenance of equilibrium in the balances of international payments required each country to adjust its domestic price, cost, income level to the state of its balance of payments. A "surplus" country had to inflate, a "deficit" country to deflate, its domestic credit structure. Thus, according to the rules of the game, the U.S.A. in 1927-1929 should, in view of her large surplus, have inflated at the risk of stimulating still further the runaway boom. Great Britain should have, according to these rules, during the same period, deflated still further in order

[6] H.W. Arndt, "The Economic Lessons of the Nineteen Thirties", Royal Institute of International Affairs, London, Oxford University Press, 1944, p. 287.

to reduce costs, and so stimulate exports and curtail imports. The fact that both countries, in common with most others, refused to adhere rigidly to these rules automatically rendered the gold standard system of adjustment inoperative. In addition, there was also the failure of the supply of gold to increase proportionately to the growth in international trade. The failure of Britain to increase its exports, the tendency towards relative over-production in world agriculture and primary products, with its unfavourable effect on the balance of payments position of most primary producing countries, were also important indications of the eventual breakdown in the world monetary system.

The historical origin of the breakdown in the international gold standard, however, may well have stemmed from France's decision in 1928 to accept nothing but gold in settlement of the enormous surplus accruing to her from repatriation of capital and from its current balance of payment surplus.[7] This move, together with the eventual introduction of exchange control by Germany, to halt the depletion in its already dwindling foreign exchange reserves, placed London, the traditional financial center, under heavy pressure. The wide usage of the Pound Sterling in international payments made it one of the most commonly held foreign currency in most exchange reserves.

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[7] League of Nations, International Currency Experience, Lessons of the Inter-War Period, Geneva, 1944, p.39.

Under the heavy and anxious foreign repatriation of gold, the U.K. government was forced to suspend the Central Bank's obligation to sell gold in exchange for silver in September 1931. Thus the gold exchange standard, which had maintained convertibility of currencies, fell and was replaced by inconvertible currency blocs, fluctuating exchange rates and exchange controls.

As early as 1933 four groups of currency systems were in effect. The Gold Bloc, which comprised France, Switzerland, the Netherlands, Italy (until 1934), Belgium and Luxembourg (until 1935), maintaining the parity of their currencies and full convertibility. These countries had to depend mainly on high tariffs and import quotas on a large scale in order to keep their trade in balance, since their currencies were, for the most part, overvalued as a result of depreciation in numerous other countries. The second group was composed of countries maintaining an artificial parity by means of exchange control such as Germany and Italy (after 1934). In these countries, quotas were supplemented by the rationing of foreign exchange for the purchase of imports. Exchange control was soon developed by these countries into an instrument of further economic warfare by minimizing the need for, and maximizing the acquisition of, free exchange currencies. It was, in a sense, a return to mercantilism. The third group of currency bloc was composed of those countries with depreciated and controlled exchanges - most Latin American countries, and some European, such as Greece and Czechoslovakia. For this group, extreme measures of trade restriction were not required to supplement initial depreciation and control, while at the same time these countries could pursue policies of domestic reflation, although not all did. The fourth group of countries depreciated their currencies, but maintained convertibility. These included the U.K., some British Dominions, the Scandinavian countries under the Sterling Bloc; also the U.S., whose dollar was allowed to depreciate in April 1933.

F. Breakdown of Multilateral Trade

With the collapse of the world monetary system and its replacement by separate currency blocs, multilateral trade was replaced by a general move towards bilateralism. This move was due, not only to the impossibility of conducting multilateral trade with inconvertible currencies, but also as a means to prevent any further deterioration in domestic economic conditions.

The serious internal economic conditions facing most countries demanded immediate attention. The drastically reduced levels of production and income accompanied by mass unemployment required that governments give increased attention to domestic problems. Priorities were forcibly reversed;

domestic problems had to be attended to first and foremost, even at the sacrifice of international economic considerations. Any further deterioration in the internal situation of individual countries had to be prevented to all costs. Employment and production levels had to be revitalized, and most countries attempted to do just this through replacement of imports by domestic production. It therefore followed that, since trade could not be dispensed with completely, it should at least be controlled in a manner most advantageous to domestic production and employment.

In this way discriminatory trading agreement became more and more prevalent as each country sought to restrict its trade to those countries with whom it felt some advantage could be gained. Such arrangements were intended to foster a certain stability in a country's international trade which, in turn, would promote greater stability in domestic production and employment levels.

In many cases, however, bilateral agreements became instruments of commercial warfare. The degree of instability which this move towards bilateralism produced was such that by 1935, when the Economic Committee of the League of Nations was requested by the Council to examine the feasibility of an international agreement whereby changes in tariffs and other restrictions would be announced one month in advance, it reported that there was "no chance at present of achieving such an agreement".[8]

Bilateral trade was also used in an effort to reduce deficits in balance of trade. No longer supported by foreign lending, trade deficits had to be converted into surpluses or at least into balanced accounts. Thus with exports floundering, most countries adopted policies to curb imports through wide use of quantitative controls and high tariff barriers. Even the United Kingdom, where the tradition of open competition and free trade was strongest, did not remain immune to this move as it adopted the Import Duties Act in February of 1932.[9] Of all British imports, over 80 per cent had been allowed free entry. From then on, however, only 25 per cent of goods imported remained untaxed; these latter were mainly raw materials and a few foodstuffs.

Despite the general adoption of bilateral agreements and import restrictions and the increases in tariffs, the depressed state of domestic prices, production, trade and employment continued to deteriorate, and new measures had to be continuously introduced to prevent still further declines, which many countries feared would result in complete economic chaos. Quotas and exchange restrictions were increased, and they soon overshadowed all previous restrictive measures.

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[8] League of Nations, Commercial Policy in the Inter-War Period, Geneva, 1942, p. 71.

[9] Ibid., p. 72.

The speed with which this movement towards bilateralism, with its many accompanying barriers to trade, spread to almost all countries of the world, does not only prove the anxiety of each country to find a solution to their internal problems, but also serves to amplify the manner in which the passive and active trade balances of each country depend upon one another, and form only one single global trade balance within which all countries must either stand or fall.

G. The Role of the U.S.

As discussed earlier in the chapter the problem of international vulnerability to the spread of economic depressions and inflations was brought to the forefront during these years of widespread economic depression. This fostered a psychological approach to the situation whereby smaller countries readily blamed larger economies for part of their troubles.

The most commonly accepted premise, in this respect, was the blame placed by Europe upon the U.S. economy as the main cause, both for the extent and the intensity of the depression. Europe maintained that although a downturn in economic activity had been evident in several less industrialized countries and in Germany between late 1927 and the middle of 1929, their collective economic weight was not sufficient to spark a worldwide collapse.[10] It was not until the downturn of industrial activity in the U.S. in July 1929, followed by the stock market collapse in October of that year, that conditions became increasingly worse in the U.S. and in Europe.

The main consequential aspects of the U.S. depression for European countries were the abrupt fall in U.S. imports and dollar investments. The level of world trade and economic activity prior to 1930 had been partly supported by U.S. purchases of foreign goods and services and by new investments abroad at a level of $7.4 billion per annum for the three years 1927 to 1929. However, by 1933 such income for foreign countries had dropped by 68 per cent to $2.4 billion.[11]

This drastic decline in U.S. purchases from foreign countries, and in the world supply of dollars must rank as a very severe disturbance directly contributing to depressing business activity abroad and producing foreign exchange problems. The level of economic activity in Europe could not be expected to remain unaffected by such a sudden and severe contraction in the supply of dollars, and thus the U.S. was widely blamed for the breakdown of the international currency system and for its devastating effects.

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[10] U.S. Department of Commerce, The United States in the World Economy, Economic Series No. 23, Washington, 1943, p.169.

[11] Ibid., p. 174, Table 2. Actually, if fixed repayments are taken into account, net U.S. dollar payments abroad had fallen by 77 per cent to $1.5 billion.

H. The Unemployment Problem

The various economic measures, such as increased tariffs, quantitative import restrictions, currency depreciations, and exchange controls, adopted by most countries during the depression were, it is true, intended to overcome imbalances in international trade and payments position. But they were also used as means to salvage any remnant of domestic economic stability.

Mass unemployment presented the most obvious and overwhelming problem of economic instability.[12] During the winter of 1931-1932, the number of unemployed in the U.K. reached 2.5 millions, reducing about 25 per cent of the whole working class population to the dole. By 1932 some six to seven million German workers were unemployed. The effects of the world depression in France were slightly delayed by the existing protection against foreign competition. Gradually, however, the French economy began to suffer, in particular, from decreases in exports and in tourist revenues. The depression first hit several large French business undertakings which in the throes of bankruptcy had to appeal to the State for assistance. Continued export losses steadily deepened the industrial depression, and led to mass unemployment. At the climax of the depression in France 1.5 million

[12] H. W. Arndt, The Economic Lessons of the Nineteen Thirties, p. 250.

were unemployed. While this figure may not appear high in comparison to those of the U.K. and Germany, it was for this country, who normally employed annually several hundred thousand seasonal foreign workers, absolutely catastrophic.

Faced with such dangerous unemployment levels, most governments viewed the curtailment of imports as a necessary measure to prevent any further deterioration, and possibly even bring some amelioration. The popular thesis was that goods previously imported would now be manufactured domestically. In turn this additional internal productive activity would mean jobs for the unemployed. Of course the inadequacy of this approach to cope with the large and overwhelming problem of unemployment was immediately obvious. While policies of protection undoubtedly brought a certain measure of relief to the situation much more was needed.

I. Attempts at Recovery

The breakdown of the world-wide multilateral system of settlements engendered the establishment of restricted areas of international settlements and the introduction and extension of discriminatory measures to insulate domestic economies from foreign competition. Unfortunately the various measures to restrict, control and stabilize international trade and payments positions did not lead to the coveted domestic economic recovery.

To lift Europe out of near economic chaos required action from within each country affected. However, the success of internal policies for recovery were hampered by the division of Europe into many small markets. Taken as a whole, Europe represented one of the greatest concentrations of wealth and productive capacity. However, this capacity, being dispersed among several countries, was rather inefficient. The economic drawback resulting from the existing divisions of markets were even more pronounced as each economy became increasingly segregated through protectionism and duplication of industrial development.

Nevertheless each country adopted those policies which it believed would bring some relief to the situation. The policies of the various European countries differed considerably one from another. Their only common feature, during this period extending from 1930 to World War II, was the lack of effort toward greater international economic cooperation. Each country tried to achieve and maintain recovery through the implementation of national policies, paying little attention to considerations of international cooperation.

Most countries pursued different policies on the basis of different theories and circumstances.[13] The effects

[13] Paul Alpert, Twentieth Century Economic History of Europe, New York, Schuman, 1951, pp. 117-165.

of the depression in France were mainly felt by a gradually increasing strain on her balance of payments, domestic industrial inactivity, and growing budget deficits. To overcome these difficulties every effort was made to pursue the then orthodox policy of deflation which, it was hoped, would stimulate recovery either by restoring profitability to private enterprise or by leading to a fall in interest rates which in turn would encourage private investment.

In the United Kingdom, the new tariff of 1932 became a vital element in a recovery based on "cheap money" and the abandonment of the gold standard in 1931. This latter measure removed the immediate pressure on the British balance of payments position. This, together with the incoming flow of foreign capital paved the way for the adoption of a vigourous policy of "cheap money". However, U.K. policies were assisted by other developments. The expansion of trade was achieved mainly through devaluation of the Pound Sterling and Imperial Preferences devised in 1932. The large residential building boom which began in 1932, and the fact that Great Britain had never fully shared in the inflationary period of the twenties, were of great assistance in determining the success of Britains recovery.

German policies for recovery did not entail monetary measures alone. To the contrary monetary measures were secondary to innumerable devices of putting the unemployed directly to work through such schemes as compulsory labour service, a compulsory year on the land, and discrimination against the employment of women. Such direct measures were coupled with an expansionist monetary policy based mainly on large scale public spending. By the end of 1934, even before the indirect effects of public expenditures upon consumer demand had made itself fully felt, unemployment had fallen by more than three million and the volume of industrial production had increased by 30 per cent. Of course the success of the German policies was facilitated by re-armament, and autocratic powers of control over individual economic activity in the country. The series of controls over consumption, labour supply and investments which had to be implemented as a result of the initial policies of recovery are only further indications of the near impossibility of adapting such measures to a democratically governed economy.

The Swedish experiment,[14] acclaimed as a model of trade cycle control, was greatly assisted by favourable developments in foreign trade resulting from devaluation, "cheap money", deficit financing and stability in world demand for its raw materials. The recovery policies of the Labour Government elected in 1932 did not really get under way until 1934.

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[14] H. W. Arndt, The Economic Lessons of the Nineteen Thirties, p. 207.

These policies were characterized by the introduction of compensatory or double budgets and planned public works. In adopting a compensatory budget the government no longer had to balance the whole budget, but only the current items. The capital account of the budget could be balanced over the trade cycle as a whole. This permitted more leeway in organizing public works programmes. Sweden already had some experience with public works as a method of counteracting or alleviating unemployment. Since 1920 it had been the practice to create work for the unemployed rather than provide cash relief; and in 1924 a State Unemployment Commission had been set up to co-ordinate public works programmes. With such administrative machinery already in existence, the task of expanding the role of public investment to counteract the fall in the private sector, was facilitated to a great extent.

Whether the policies adopted by individual countries were reflationary, deflationary, whether they included monetary measures, or public investments and works programmes, they were all intended to provide work for the unemployed. Although these policies were divergent they did have one common point, they were generally accompanied by national insulation from outside economic fluctuations. But Europe soon realized that national planning and regulation of foreign trade are interdependent. Each restriction on imports required further regulation of the industries concerned, and in the aggregate meant the control and regulation of competition, both domestic and foreign, in order to be effective. Thus the doctrine of full employment, monetary and credit management, price and wage controls and public investments conceived within economic boundaries insulated from the pressures of foreign competition could only lead to progressive disparities of prices and wages, and to a constantly growing separation of economies and nations, without providing any enduring solution to the basic problems of that time.

J. Discouraging Results

Despite the serious efforts made by all countries affected to achieve economic recovery, progress was slow and even discouraging.

As evidenced in Table II, it was not until 1936 that most countries in Europe reached the level of industrial production attained in 1929. It should also be noted that in the United States, France and the Netherlands, where the painful process of deflation and balanced budget was pursured most assiduously, until 1936, the recovery was slower than in the U.K. and Sweden.

The more noticeable improvements in the U.K. and Sweden were attributable in part to their success in maintaining a more favourable export level than in most countries. Of course, the effect of the planned budgetary deficits and

TABLE II

INDUSTRIAL PRODUCTION[1]

(Index Numbers; 1929 = 100)

	1929	1932	1933	1934	1935	1936	1937
World	100	70	78	86	96	111	119
U.S.A.	100	53	63	68	79	94	103
U.K.	100	84	88	99	106	116	124
Sweden	100	89	91	110	123	135	149
France	100	72	81	75	73	78	82
Netherlands	100	84	91	93	90	91	103

1 Quantitative value of industrial production.

Source: League of Nations, Commercial Policy in the Interwar Period, Geneva, 1932, p. 168.

public works programme in Sweden are also evident in the comparatively rapid growth of industrial production in that country beginning in 1934.

During this pre-war period world trade floundered and did not reach the level achieved in 1929, indicating that the restrictive foreign trade policies inherent in most domestic recovery programmes had, at least, been effective in reducing foreign competition and aggregate volume of international trade. But the obstacles to foreign trade were in themselves hampering the rate of growth of domestic industrial production. This is supported by earlier statistical data in Table I, and can be explained by the fact that domestic production mainly for the home market was of necessity at a lower level than domestic production geared to world demand. In addition, a lower level of production during the initial period must have left idle means of production, which had previously been employed in the field of exports, and even in concurrence with a larger import market. The resulting national income, the growth of which was now mainly dependent upon internal developments, no longer supported by the inflow of foreign capital, could not but stagnate and be unduly slow in its recovery.

This contention, that the low level of foreign trade contributed to the slowness of recovery in most countries, is also supported by favourable developments in the Sterling Bloc.

In this area, enjoying relative currency stability and freedom from excessive trade restrictions, trade expanded considerably. This trend was accompanied by comparatively faster recovery in industrial production in these countries than in those countries where trade was restricted.

As can be seen from Table III, the volume of industrial production in the United Kingdom, Sweden, Norway and Denmark increased regularly from 1935 to 1938, along with increases in national income. These countries, belonging to the Sterling Bloc experienced relative stability and growth in their foreign trade, especially amongst themselves. The contrasting results in the Gold Bloc countries and the "Dollar" countries were quite remarkable. In these groups trade was restricted by high tariffs and quantitative impediments.

Thus, developments following the great depression were partly characterized by a noticeably slower recovery in those countries adopting protectionist policies, than in those countries which managed to maintain a continued and increasing flow in their foreign trade transactions. Of course, as seen earlier, other factors than foreign trade contributed to the earlier recovery achieved in the United Kingdom and Sweden. Nevertheless, this variation in the rate of recovery between these two groups of countries, indicates that sound policies of domestic economic recovery were assured a

TABLE III

Percentage Change from 1929 in
a) Volume of Industrial Production, and b) National Income[1]

Selected Sterling Bloc	(a)				(b)			
Countries	1935	1936	1937	1938	1935	1936	1937	1938
U.K.	5.6	15.8	23.6	15.5	5.5	12.1	20.9	14.5
Sweden	23.0	35.0	49.0	46.0	2.5	10.1	24.2	29.4
Norway	7.6	18.2	29.6	29.1	7.4	6.4	21.2	32.9
Denmark	25.0	30.0	36.0	36.0	9.5	13.5	18.9	24.3
Gold Bloc								
Countries								
France	-26.9[2]	-21.7	-18.1	-23.9	-30.9	-24.0	-14.9	-9.1
Netherlands	- 9.8	- 8.6	2.8	4.1	-26.5	-24.8	-20.2	-16.6
Belgium	-17.8	-13.3	- 2.8	-21.3		not available		
Dollar								
Countries								
U.S.A.	-20.9	- 6.4	2.7	-20.0	-33.1	-22.1	-14.2	-22.9
Canada	- 9.0	2.0	12.0	1.0	-34.3	-25.6	-15.7	-17.5

1 In current currency values
2 Minus signs indicate a percentage reduction.
Source: U.S. Department of Commerce, *The U.S. in the World Economy*, Economic Series No.23, Washington, 1943, p. 184.

greater measure of success by the inclusion of appropriate foreign trade considerations. Conversely, it would appear that domestic recovery programmes implemented at the expense of foreign trade requirements could achieve only limited success. To put it very briefly, outright protectionism did not prove to be a true solution to the economic difficulties of the nineteen thirties.

K. Economic Cooperation Considered

During this period of faltering economic activity, the need for economic cooperation was not completely ignored. It was felt as far back as 1930. Even before the depression had given evidence of the overwhelming dependence of segregated European markets upon the economic stability and strength of the United States,[15] this idea of unifying the European markets into a larger entity to make it more efficient, to coordinate its inherent economic wealth and growth potential, was being voiced. The objective was to create a European Federal Union involving political and economic cooperation between member states.

In May 1930, Mr. Briand, then Prime Minister of France, elaborated his views in a memorandum to all European govern-

15 T. Balogh, "The United States in the World Economy", Bulletin of the Oxford University, Institute of Statistics, October 1946, pp. 309-323.

ments Members of the League of Nations. He referred to the desirability of the "establishment of a common market" for the products of all European countries.[16] At the same time he criticized the creation of bilateral agreements with the objective of raising trade barriers against outside countries. This proposal received the unanimous support of forty-five countries, but owing to the economic exigencies of the time discussion of this broader issue was eventually sacrificed to considerations of more immediate nature.

That economic cooperation should not have received more practical attention at that time is quite understandable. This was a time when economic autarky and the export of unemployment by raising trade barriers were the accepted means of action for all governments to combat the evils of the depression. The main concern was the revitalization of each economy, the end to chronic unemployment and industrial stagnation. But, despite these immediate and pressing problems, some means had to be found to insure future economic stability. This was the birth of "Keynesian" economics whereby government participation and planning in economic activities would provide the required controls for avoiding repeated significant economic fluctuations, and provide some assurance of full

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[16] United Nations, Customs Unions, A League of Nations Contribution to the Study of Customs Unions, Lake Success, U.N. Department of Economic Affairs, 1947, p. 38.

employment and a reasonable level of economic activity. Growing markets, expansion of trade, economies of mass production, increasing productive efficiency and capacity were problems of the future, and so too, therefore, was economic cooperation. Not only did they overlook the presently accepted tenet that economic advantages are to be found in cooperation amongst fragmented economies such as existed in Europe,[17] but even the concept that economic unity would have to preceed any "peace promising" political or military unity was overlooked. Concerned with grave problems in their respective domestic markets, governments could not appreciate that the only lasting solution would have to be found in terms of their position and economic strength in the world economy. Moreover, apart from economic considerations, there were no evident international forces such as exist today to popularize the acceptance of cooperation and unification as the solution to European problems.

However, the policies adopted did not prove successful, and the economic activities of European countries in the thirties continued at regrettably low levels. The economic

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[17] Today it is a widely accepted fact, especially reflected in GATT discussions and negotiations, that freeing international trade of discrimination and restrictions is an essential requirement to assure economic growth and to raise standards of living in both the industrialized and less developed economies alike. Economic integration is likewise considered as a step further in this direction.

stagnation which faced Europe during most of the pre-war period amplified the drawbacks of protectionist policies and divided markets. The inequality between the small and marginal European markets compared to the U.S. market led many to believe that both gains and losses would continue to be one-sided, to the disadvantage of Europe, as long as this disproportion in productive and distributive capacity remained between these two areas.

The normal development and general acceptance of the concept of unification through cooperation was disrupted by the exigencies of war. This catastrophe, apart from its devastating consequences, added more evidence to the disadvantages of European dis-unity.[18] It also gave great impetus to put into practise some form of economic cooperation.

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18 R.G. Hawtrey, Western European Union, Implications for the United Kingdom; Royal Institute of International Affairs, London, 1949, p. 26.

CHAPTER II

THE PROCESS OF GRADUAL INTEGRATION

A. Introduction

With the end of the hostilities, Europe's economic problems, no longer overshadowed by matters of military necessity, assumed their position of primary importance. Europe was a devastated market, and in many instances, internal economic troubles were compounded by the loss of colonial dependencies. In addition, the imminence of a second giant market, the U.S.S.R. and its satellites, represented a potential threat militarily and economically to the weak and comparatively divided Western European economies,

The desirability of some sort of unified front, to meet both the economic and military problems of the time, thus became widely accepted. However, the driving force behind economic cooperation was military. The fear of renewed war and devastation convinced these historically individualistic countries, that cooperation was their only hope. The first step in this direction was taken in March 1948 when the U.K. France and Benelux were united in the mutual defense Treaty of Brussels. The immediate fear of renewed war gave the desire for union an even stronger motive than exists today. Mr. Churchill described these feelings in a speech in 1946, when he said in part: "What is the sovereign remedy? It is to recreate the European Family, or as much of it as we can, and to provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe."[1] At that time, however, the U.K. had no intentions of joining such a union, but thought, in Churchill's words, that the U.K. and the Commonwealth "must be friends and sponsors of the New Europe, and must champion its right to live and shine."[2] At the Hague "Congress of Europe" of 1948, the desirability of either a formal federation of European States, or something not far short of it, was contemplated. It was as a result of this, that one year later, the Council of Europe was put into effect. Although it did not provide European Federation, it did indicate the desirability for economic and political cooperation in Europe, while at the same time recognizing that such steps would have to be taken gradually.

While there is no doubt that Europe seriously desired to implement some form of united action to maximize its efforts in dealing with its economic problems, it is equally obvious that the strong support and encouragement it received

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1 R.G. Hawthrey, Western European Union, Implications for the United Kingdom, London, Royal Institute of International Affairs, 1949, p. 26.

2 Ibid., p. 27.

from the U.S. hastened the development of practical measures towards this end. American motives in promoting European unity were basically two-fold. First, they believed their own history had been fundamentally changed by the union of the States, and that any other area of the world which adopted the same formula could look forward to the same future. Secondly, by promoting what they firmly believed would result in a stronger economic unit in Europe, they were at the same time promoting their own welfare in terms of a larger export market for U.S. goods, stronger allies in military matters and, eventually, the possibility of some relief in their larger scale economic aid to less developed nations.

Economic cooperation in Western Europe became a practical political issue as a result of General Marshall's offer of American financial aid in the reconstruction of Europe. This was seized and the possibility furthered by the Report of the Committee on European Economic Cooperation, representing the sixteen nations which had accepted the U.S. offer. In the more practical considerations of the Marshall Plan, Europe realized that although the need for cooperation was imminent, a more gradual approach than immediate political unification was highly preferable. Europe also realized that it was up to them to find the best means of implementing economic cooperation, for as Mr. Marshall had indicated in his speech of June 5, 1947, "there must be some agreement among the countries of Europe as to the requirements of the situation, and the part these countries will take in order to give proper effect to whatever action might be undertaken."[3] In these words, Mr. Marshall expressed the official U.S. view, that the initiative to introduce practical measures of economic cooperation would have to be originated by Europe itself. The U.S.'s contribution would be simply to lend support to this initiative.

The practical considerations, of re-construction and rehabilitation of whole economies envisaged by the Marshall Plan, led to the formation of the Organization for European Economic Cooperation in the latter part of 1948. The sense of urgency in these matters, however, was progressively replaced by the European preference for gradualism. Europe was genuinely intent on preventing any possibility of renewed German military strength, and this fear was only compounded by the growing military disparities between East and West Europe. As hope for peaceful agreement between East and West faded, Western Europe gradually accepted the fact that there would be need for cooperation, not only on an economic basis, but also on a military basis.

By the end of 1948 there were two main bodies of co-operative action in Europe; the Brussels Treaty especially

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[3] R.G. Hawthrey, Western European Union, Implications for the United Kingdom, p. 29.

interested in the collective self-defense of its members and the OEEC concerned with economic matters. However, in addition to these two developments, there was also at that time another plan for economic cooperation being set in motion in three European countries. Although this plan was not Europe-wide, it did contain the seed of those very ideals which the whole of Western Europe would soon come to accept as its own.

B. BENELUX

Before the concept of Europe-wide economic and political cooperation, three European countries were striving towards some form of economic integration. The three were Belgium, the Netherlands and Luxembourg whose endeavours quickly came to be known under the name of Benelux. Although their aspirations were less encompassing in size than current plans for European economic integration, they did provide the practical experience necessary to facilitate the soundness of subsequent larger undertakings.

In October of 1943 the governments-in-exile of Belgium, the Netherlands and Luxembourg, whose countries were still under German occupation, signed an agreement on monetary cooperation. This agreement was only the first step towards the Benelux Customs Convention which was signed in September of 1944 in London.[4]

4 James E. Meade, Negotiations for Benelux: An Annotated Chronicle, 1943-1956, Princeton University, Studies in International Finance No.6, Dept. of Economics and Sociology, 1957, p.9.

The 1944 Convention outlined a plan for the creation of a customs union between these countries in several stages. Three Councils were set up by the Convention - an Administrative Customs Council, with the task of proposing measures for the unification of laws and regulations; - a Council for Economic Union, to give advice on the measures which the partner countries proposed to take to regulate trade by quantitative restrictions and similar measures, and for the establishment of a common regime of trade controls and subsidies; - and a Commercial Agreements Council, to coordinate commercial agreements with third countries. It was clearly the intention that the common tariff and the general removal of customs duties between the partner countries would eventually lead to some form of full economic union.

This attempt at economic union did not signify the immediate abandonment of past restrictionist approach to trade. The tasks assigned to each Institution points this out very clearly. This was not to be an outward-looking grouping, intent on reducing obstacles to trade on a multilateral basis. These two countries,[5] like most others had followed their own national policies completely on an independent basis prior to the war with the result that substantial divergencies in their

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5 Belgium and Luxembourg were already partners in an economic union started in 1921. Therefore, for purposes of simplicity "Belgium" will be used to denote both that country and Luxembourg.

respective economies could not be evened out without effort. The divergence in domestic economic, financial and social policies between the partners themselves had to be narrowed before any sound and practical considerations in the realm of multilateral competition could even be envisaged. Whether or not the first architects of Benelux had envisaged the slow and laborious road ahead, experience soon showed that any progress towards complete economic union would be a gradual process.[6]

One of the more immediate problems was the recurring deficits in the Netherlands balance of payments position immediately after the war. The resultant imposition of restrictions on imports and on the movement of capital even within the area frustrated any real progress. It also soon became evident that a common market for goods and services and for labour and capital is much more difficult to establish in practice than on paper. Concrete solutions had to be found to such problems as, differences in the rate of subsidies or taxes on the production of similar products; differences in measures of price control over similar products; differences in the rates of interest payable on capital funds due to divergent national monetary policies.[7]

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6 F.G. Eyck, "Benelux in the balance: problems, shortcomings and achievements, Political Science Quarterly, No.69, March 1954, pp. 65 to 91.

7 The Post-War Monetary Policy of the Benelux Countries and its effect on Foreign Trade, A Series of Lectures on International Banking and Foreign Trade delivered at Oxford University in Sept.1955, London, The Institute of Bankers, 1955, pp. 72 to 100.

The difficulties inherent in the objectives which these countries had taken upon themselves to achieve were significantly increased by the very fact that such objectives meant the abandonment of pre-war economic policies and a reversal in the well-established effects of such policies. Thus it was not until 1948 that the common Benelux customs duties were put into effect and that the ordinary customs duties on trade between the member countries were abolished. This was the first real tangible step put successfully into effect towards full economic union. But even then, the Benelux could not agree on the inclusion of agriculture in the free common market.

For the next ten years progress was gradual but encouraging. Attention had to be focussed on the more difficult problems of economic union.[8] The unification of rates of excise duties threatened not only budget revenues but also the future freedom of individual action by member countries in bringing changes to such rates for budgetary or other reasons. This involved the introduction of central administrative control over the collection of such duties and over the future alterations in the unified rates. Another most difficult problem encountered in the early negotiations

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[8] Alan Valentine, "Benelux: pilot plant of economic union", Yale Review, No. 44, September 1954, pp. 23 to 32; W. Robertson, "Benelux and the Problems of Economic Integration, Oxford Economic Papers, New Series No. 8, February 1956, pp. 35 to 50.

towards economic union was the necessity for some assurance of balance of payments equilibrium within the area. Based on the separate domestic monetary and fiscal policies of the partners any imbalance would have to be rectified through the re-imposition of restrictions on trade and payments. Solution to this problem was fortunately facilitated by the regional convertibility of most European currencies through the facilities of the European Payments Union, and through gradual strengthening of the Dutch balance of trade position vis-a-vis Belgium. The Dutch were able to finance any deficit within the Benelux by their earnings from third countries in Western Europe. With the all around strengthening of European currencies, and with the smooth operation of the EPU, this difficulty slowly began to disappear. Moreover, with the participation of Benelux in the moves for the formation of a European Economic Community, the real solution would now have to be sought within this larger economic grouping.

Having demonstrated to the world that a sound approach to economic union must be gradual, these three countries signed the Treaty establishing the Benelux Economic Union on February 3, 1958. This represented the result of almost fourteen years of negotiations. However, even after all that time, an escape clause had to be incorporated in the Treaty which extends until 1962 the time-limit for the creation of a common market in agriculture.

C. The North Atlantic Treaty Organization

Soon after the end of the Second World War Europe came to realize that the main threat of aggressive militarism did not lie in a renewal of German military might, but rather in the attitude and policies of the growing "Soviet Empire". The Treaty of Dunkirk signed in March 1947 had bound the U.K. and France in resisting a revival of German aggression. But now some form of military cooperation was needed for the military consolidation of the whole of Western Europe. The seriousness of dangers was underlined very early in 1948 by the Communist coup d'état in Czechoslovakia. This development may well have hastened the signing of the Brussels Treaty in that same year whereby the U.K., France and the Benelux were joined together in common defense against aggression in Europe. This move received the support of the U.S. and Canada, and shortly after its inception talks were held in Washington to study the possibility of more comprehensive military cooperation under a proposed North Atlantic Regional Pact which would include Canada and the U.S.

The creation of the North Atlantic Treaty Organization (NATO) in April 1949 was the subsequent result of these talks, and united most of Western Europe with Canada and the U.S. under one policy of defense.[9] With the realization that

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9 The European members of NATO were Benelux, Denmark, France, Iceland, Italy, Norway, Portugal and the United Kingdom; Greece and Turkey joined in 1952 and Germany in 1955.

German participation in Western defense would have to be accepted some day, France proposed the formation of a European army. The view at that time was that German rearmament would be acceptable only on the basis of German participation in an integrated European army. To this end a European Defense Community (EDC) was proposed with the objective of setting up a supranational defense community with common institutions, common armed forces and a common budget.[10] Arrangements were also being completed within NATO for an integrated force in Europe, with fewer characteristics of supranationality, to be contributed by participating governments, and to be under one command. It may well have been that these new developments in NATO, which minimized the need for supranational authority, while at the same time providing common defense, influenced the outcome of EDC. With the failure to implement the EDC Treaty, Germany was not accepted as a member of NATO until 1955. This was a practical demonstration of Europe's indecision and preference for gradualism in cooperative endeavours demanding the sacrifice of domestic autonomy. It also indicated that Europe still feared a Germany under arms.

With its growing military strength and stability and the increasing recognition of the need for cooperation, NATO did provide Europe with an immediate sense of security. But

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[10] Central Office of Information, Western Cooperation-A Reference Handbook, London, H.M. Stationery Office, November 1955, pp. 5 to 8.

the Treaty was not solely concerned with defense. In Article 2 of the Treaty member countries had endorsed the concept that an effective policy of defense for the free world must be based on economic expansion and prosperity, and that its cohesion depends more on closer social and political contacts between its members than on strictly military "ententes". Thus the importance of closer economic cooperation, the expansion and liberalization of trade were problems which fell within the intended scope of NATO. Such aspects of NATO, however, proved more difficult to put into practice than the purely military objectives. In an attempt to overcome this deficiency the Ministerial Meeting of December 1955 decided that the Council should "examine and implement" all measures conducive to closer cooperation between member countries, as envisaged in Article 2 of the Treaty. As a result of the discussion following that meeting the Council decided, in May 1956, to appoint a Committee of Three[11] "to advise the Council on ways and means to improve and extend NATO cooperation in non-military fields".[12] In commenting on the work of the Special Committee Mr. Pearson said, "what Article 2 envisaged was not so much the production of tangible results

11 Mr. Halvard Lange, Foreign Minister of Norway, Mr. Gaetano Martino, Foreign Minister of Italy, Mr. L.B. Pearson, Secretary of State for External Affairs of Canada.

12 Department of External Affairs, External Affairs, Ottawa, Vol. 8, No. 5, p. 110.

but the creation of a frame of mind which would accustom sovereign states to thinking of their allies in the formation of their political and economic policies."[13]

The Report of the Committee of Three on non-military cooperation in NATO was presented at the Paris Ministerial Meeting in December 1956.[14] The Report recognized the importance of consultation among NATO governments and stressed the need for members to develop common policies by full and timely consultation on issues of common concern. This would not require new institutional arrangements nor organizational changes but could be achieved through sustained political willingness to form policies through consultation. The Report was also concerned with differences which might arise between members and suggested procedures to facilitate the settlement of such differences.

The Report indicated that while economic cooperation was desirable it was also difficult to achieve in practice, and the only tangible means it could offer was increased consultations amongst member countries. In an address to the American Council on NATO in New York, in January 1957, Mr. Pearson supported this view when he said, that unity within

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13 Edgar McInnis, "Three Wise Men Look for Ways to Develop and Strengthen NATO", Canadian Business, Canadian Chamber of Commerce, Montreal, March 1957, p. 88.

14 Department of External Affairs, External Affairs, Ottawa, Vol. 9, No. 1, January 1957, p. 12.

NATO

> must be based on something deeper than defence co-operation alone if it is to survive. As we wrote in our report 'there cannot be unity in defence and disunity in foreign policy'. That seems to me to be obvious, but some years of participation in international affairs have led me to the somewhat cynical conclusion that the obvious is often more difficult to implement than the obscure.[15]

Thus, even today, the non-military objectives of NATO remain secondary to military considerations.

The question of financial aid through NATO has been the subject of divergent views, and it should at least be mentioned here. If NATO - fundamentally a military organization - was to allocate funds for aiding the underdeveloped countries, such could be looked upon as military rather than economic, and would imply, for propagandists at least, some form of military "rapprochement". Such considerations have tended to frustrate the economic initiative of NATO. But there does exist another area of aid which NATO could properly regard as its own without fear of adverse political propaganda. NATO's economic aspect could be tested in its economically less favoured members, such as Greece and Turkey, and even in some parts of Italy. This would benefit not only the recipient country, but also the Organization as a whole. And in the

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[15] Department of External Affairs, External Affairs, Ottawa, Vol. 9, No. 2, p. 78.

light of the developments in the U.S. international accounts the moment would seem appropriate for the adoption of a purely NATO internal development fund designed to strengthen the economic side of the Alliance as a whole. This would merely be giving expression to Article 2 of the Treaty which deals with self-help and mutual aid.

If solutions to the problem of economic aid and cooperation within NATO were left wanting, this Organization did provide a strong cooperative approach to Europe's military problems, even between Germany and France, which may well have facilitated the achievement of success in other European cooperative endeavours more directly concerned with economic matters.

D. Organization for European Economic Cooperation (OEEC)

Europe's basic problem in 1945 was economic. Most of Europe's capital equipment had been destroyed or run-down with the result that productive capacity was stagnant, and even deteriorating. Moreover many overseas investments had been repatriated for the war effort, while international indebtedness had increased. In addition, the normal sources of supply of many essential raw materials, especially in South-East Asia, had been severely disturbed by the "Japanese War". These conditions were reflected in low levels of production, shortages of fuel, inflationary pressures, budgetary deficits and heavily adverse trade balances - particularly with North America, which, pending the rehabilitation of other pre-war sources, was the main supplier of important foodstuffs and raw materials.

During this period deficits in payments were covered by drawing down remaining dollar reserves, and through financial aid and loans, such as from the United Nations, Canada and the U.S.A. By 1947, however, most of these exceptional means of finance were nearing exhaustion. Europe was faced with a possible reduction of supplies of foodstuffs and raw materials that could have reversed the trend towards economic recovery, and precipitated unemployment and acute social distress.[16]

In addition, the long-term futility of this type of uncoordinated aid was gradually recognized. Granting separate assistance to individual European countries, whose production, foreign trade and investment policies, not only entirely lacked coordination, but were to a considerable extent competitive and contradictory, was to say the least a futile undertaking. The need for economic cooperation became even more evident in the face of growing dichotomy between east and west Europe. This situation helped to spur the U.S. into action to find some sound solution to Europe's predicament.

16 United Nations, A Survey of the Economic Situation and Prospects of Europe, Lake Success, Department of Economic Affairs, 1948, pp. 101-153.

The interest of the U.S. in the economic recovery of the non-communist countries of Europe, which otherwise might become easy prey to Soviet military or economic aggression, was more than political. Political motives were, of course, given great display since public opinion could grasp these more easily, but there were also very serious economic reasons. The general expansion of imports and reduction of exports vis-a-vis the Dollar Area was causing ever increasing deficits in the merchandise trade of Western Europe. While in 1938 the trade deficit of this area with the U.S. had amounted to only $700 million, it reached $3.5 billion in 1946 and $5 billion in 1947. Developments in the balance of payments situation led to deficits of $4.2 billion in 1946 and $5.4 billion in 1947, compared to $400 million in 1938.[17] The problem of financing these enormous deficits was gaining in seriousness, and the U.S. knew too well that current policies of aid would not provide the coveted recovery in Europe. It was then feared, on the basis of past experience, that Europe's chronic depressed conditions would eventually make itself felt in a decline in U.S. exports. The idea of fostering prosperity in Europe was therefore grasped by the American government as a policy of necessity to insure continued U.S. economic activity in the future just as much as for political reasons.

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[17] Paul Alpert, Twentieth Century Economic History of Europe, pp. 370-371.

On June 5, 1947, the Secretary of State of the U.S., General Marshall, made a historic speech at Harvard University, in which he invited European nations to join in detailing their common needs for consideration by Congress. European governments responded by setting up a "Committee of European Economic Cooperation" to determine their needs. Although such response was welcomed it had not really been expected by the U.S. The proposal formulated by Mr. Marshall applied to the whole of Europe, both East and West, and it had been expected that the newly established U.N. Economic Commission for Europe would provide the technical and administrative machinery for the implementation of the Marshall Plan. The Soviet Union, however, refused to accept the Marshall offer and forced all countries under her control to do likewise.[18] With the Soviet refusal, the plan became the natural basis of the Western Bloc. Sixteen countries of Europe[19] set to work on a plan for European reconstruction, which led to the response from the "Committee", and in effect made it impossible for the U.S. to pursue its aid plan through U.N. facilities.

The aim of the plan was to raise industrial and agricultural production, on the assumption of American aid over a

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[18] Poland and Czechoslovakie first accepted the Marshall offer, but subsequently refused it.

[19] Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Switzerland, Sweden, Turkey and the United Kingdom.

four-year period. A joint report by the sixteen nations was presented to the U.S. government in September 1947. Outside of being a remarkable political and economic achievement in itself, this report also displayed Europe's new belief in the soundness and necessity for economic cooperation. While the U.S. prepared its machinery to administer this plan and to distribute the funds,[20] Europe pursued its efforts, which culminated in the signature of a multilateral convention between the participating countries and the setting up of the Organization for European Cooperation on April 16, 1948. Subsequently, the U.S. Economic Cooperation Administration (ECA) established local missions in each of the participating countries receiving dollar aid, and bilateral agreements were signed between the government of each of these countries and the U.S. government. Europe had thus officially entered the era of practical economic cooperation.

Although, at first, the OEEC was looked upon mainly as a means to facilitate the administration and distribution of American aid, it soon showed itself to be much more. The gradual development of OEEC into something more than a "distribution agency" led to increasing cooperation in nearly all fields of economics.

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[20] On April 3, 1948, President Truman signed the U.S. Foreign Assistance Act. This embodied the Economic Cooperation Act, which authorized just over $5 billion in aid to Europe in the first year.

OEEC became the agency through which the countries of Western Europe took the initiative in solving their respective economic difficulties. One of its main pre-occupations soon became the liberalization of trade and payments, which it considered as an essential condition for the achievement of its objectives of greater production, better standards of living and sound balance of payments position. Relief was sought through bilateral trade and payments arrangements at first, and then through intra-European payments schemes.[21]

Despite the doubts, the difficulties and the setbacks which accompanied this new venture, Europe slowly began to demonstrate impressive economic gains. As may be seen from Table IV, between 1947 and 1951, OEEC countries as a whole not merely regained, but considerably surpassed the pre-war level in most of the main sectors of production and trade; after 1951 further progress continued. Most of these countries also attained a much higher degree of internal financial stability.

In the practical application of economic cooperation Europe realized its many beneficial effects. Quantitative restrictions were slowly dismantled, trade increased and most countries involved soon recognized that the progress achieved had been greatly facilitated by the new policy. Thus economic

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21 Robert Triffin, Europe and the Money Muddle, New Haven, Yale University Press, 1957, chapters 4 and 5.

TABLE IV

Economic Progress of OEEC Members

	1938	1947	1951	1952	1953	1954
Volume index of gross national product: (1951 = 100)	83	75	100	101	106	111
Volume index of private consumption: (1951 = 100)	89	94	100	102	107	112
Index of agricultural output for consumption: (1950 = 100)	91*	75	102	106	115	115
Index of industrial production: (1950 = 100)	82	80**	110	111	116	127
Volume of imports: (1950 = 100)	100	81	110	107	114	126
Volume of exports: (1950 = 100)	78	52	114	109	120	132
Volume of intra-European trade: (1950 = 100)	80	48	110	106	119	135

Source: OEEC, Statistical Bulletins 1955, No. 4, Paris, July 1955, p. 157.

* Average of years, 1934-1938.

** 1948.

cooperation was instilled in Europe as a sound and beneficial policy from which it would be foolish to retreat. In accepting economic cooperation as a worthwhile and workable principle, Europe was approaching another stage in its change of attitude from pre-war policies. The next logical step would be to determine the degree of intensity of economic cooperation most beneficial to the countries concerned. Based on the success already experienced from economic cooperation it was then only a question of time before some country would suggest that even greater benefits could be theirs if they were to accept economic integration as their new basic policy. As events showed, however, this question, with its political overtones, did not receive the full endorsement of all OEEC countries as had their first less encompassing endeavour. Nevertheless, the success of OEEC did provide the turning point in European trade policy away from pre-war protectionism, and, as such, marked the most important single economic development in Europe following the war. It paved the way and rendered possible the practical developments towards economic integration taking place today in Europe. It represents the necessary precedent and offers the required experience whereby Europe may some day be united politically as well as economically under some form of United States of Europe.

E. European Payments Union (EPU)

The international flow of goods and services in Europe at the end of the war was seriously impeded by a network of quantitative restrictions and exchange controls. In order to trade with each other European countries had to rely on bilateral arrangements. However, the formation of the OEEC and the application of economic cooperation in other fields led to the introduction of intra-European monetary cooperation. In 1948-1949 and 1949-1950, the Intra-European Payments Agreements were developed whereby credits arising from current trading between OEEC member countries were reduced by monthly clearing operations. However, these payment arrangements were essentially bilateral, and their drawbacks were eventually overcome on July 1, 1950, when the European Payments Union came into operation and provided machinery for a multilateral system of payments between OEEC countries.

Each member country was thus placed in the position of being able to ignore its balance of payments with each of the others and to concentrate solely on its balance with the group as a whole. EPU did not propose to establish the ultimate solution to Europe's hard currency problems. It was not expected, for instance, to solve the "dollar shortage" problem at that time. It was merely designed as a temporary expedient to "permit the maintenance of desirable forms of specialization in trade, while facilitating a return to full multilateral trade and ..... to the general convertibility of currencies."[22] The suspension of the former bilateral payments agreements and their transformation into a multilateral payments system were not only worthwhile achievements in themselves but also contributed to increasing competition amongst European countries. Thus EPU contributed to the removal of the major instruments and financial incentives to discrimination and bilateralism in Europe, and facilitated any subsequent steps towards the creation of a common market.

In addition to its direct achievements, EPU established a sound basis of international cooperation at the administrative level. Out of the numerous negotiations and the concrete problems to be solved by the experts concerned, arose a broader understanding of European problems. This was in contrast to the traditional nationalistic approach quite incompatible with successful and lasting integration at the economic level.

F. European Coal and Steel Community

In the summer of 1952 Europe took a revolutionary step towards supranational cooperation. Under a new body called the European Coal and Steel Community (ECSC) Benelux, France, Germany and Italy joined together in the production and consumption of coal and steel in Europe. A cooperative

22 OEEC, Preamble to the Agreement for the Establishment of a European Payments Union, signed on Sept.19, 1950, Paris, 1952.

effort such as ECSC had been sought as an economically desirable arrangement, but it was the political events of the time which assured its early implementation.

In 1949 Benelux, France, U.K. and U.S.A. took over control of the Rhur coal and steel industry as a power reserved for the Allies under the original Occupation Statute. This controlling body was known as the International Rhur Authority. The main purpose of the Authority was "that the resources of the Rhur shall not be in future used for the purpose of aggression, but shall be used in the interest of peace; that access to the coal, coke and steel of the Rhur, which was previously subject to the exclusive control of Germany, be in the future assured on an equitable basis to the countries cooperating in the Common economic good ....."[23] With this purpose it combined the hope of lowering trade barriers and facilitating cooperation in Europe, including a democratic but controlled Germany.

Of course Germany resented this tutelage and was seeking for a wider international regime on a basis of equal rights and duties. Dr. Adenauer's address to the occupying powers, on taking office as Federal Chancellor in September 1949, expressed the desire quite frankly: "We see another opening for creating a positive and viable European Federation

[23] E. Strauss, Common Sense about the Common Market, London, Allen and Unwin, 1958, p. 61.

in the hope that the control of the Rhur region would cease to be a unilateral arrangement and that it would gradually grow into an organism which would embrace the basic industries of the other European countries as well".[24] This suggestion, although not very palatable to the other European countries, corresponded very closely with a need for the harmonization of the production and consumption of coal and steel which was being expressed at that time in Europe. The plan for the "pooling" of French and German coal and steel production, put forward by France in May 1950, was the outcome of these circumstances. It was also the starting point of the "Schuman Plan", which culminated in the formation of ECSC in the summer of 1952. The basic purpose of the Schuman Plan, from the French point of view, was to keep Germany from regaining exclusive control of the coal and steel industry. From the political point of view ECSC promised to confer international power on a body largely free from the vote of a single government and equipped with powers to direct the activity and development of two vital European industries to the benefit of all. From the economic point of view ECSC was to obtain for all its members, a strengthening in the export of steel, better prices to the consumer, increased efficiency in production and distribution. It would obviate the re-instatement

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24 Ibid., p. 62.

of pre-war cartel arrangements detrimental to competition, to the pursuit of efficiency and to the consumer, and contributing to wasteful and uneconomic expansion of these industries in segregated markets.

For such a scheme to succeed it was necessary that no member should suffer unduly from the adverse economic effects of free competition. On the other hand these countries wanted to prevent a renewal of pre-war monopolistic and cartel arrangements. It was therefore agreed that, in order to benefit from the advantages of competition while obviating its undesirable consequences, a controlled competitive market should be established. The success of ECSC in increasing competition and in freeing this market from trade barriers has been quite remarkable. Most of the glaring forms of discrimination such as subsidies, preferential tariffs, quotas, customs duties and import and export licences have now been eliminated. In addition during the seven-year period 1951-1957, steel output of member nations increased by 43 per cent, while their trade in steel products more than doubled.[25]

Whatever its particular achievement, ECSC did prove economic integration to be practical. However the inherent drawback of this "Plan" was that it was only partial in scope. The level of economic activity in steel and coal was

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25 William Diebold, Jr., The Schuman Plan, A Study in Economic Cooperation 1950-1959, Published for the Council on Foreign Relations, New York, Praeger, 1959, p. 569, Table II, and p. 577, Table 13.

obviously dependent on the overall economic conditions in Europe, but only in that particular area was there specific cooperative action. Being subject to the rest of the economy, these two industries could not be guided and developed in the most effective manner. By its limited approach to unification, ECSC was, in itself, either an intermediate step to more embracing integration, or a step back towards eventual segregation of these two industries from the rest of the European markets. But ECSC was not intended to be an end in itself. It was hoped that from its experience there would rise a greater spirit of economic and political cooperation especially between France and Germany.

The parties to this "Plan" realized that a united Europe could not be achieved within the near future, but they hoped that it would serve as a first step, a concrete example, which would encourage the formation of additional pools, and even pave the way to an eventual political and economic unification of all continental Europe. It was considered to be a plan much wider in scope than the problems of these two heavy industries to which it was initially being applied. In the sixth Annual Report of the ECSC, it was reported that:

> Although the industries in a common market constitute a good test of the competitive ability of an economy, experience has shown that governments do not manage their general economic policy on the basis of the competitive conditions of two of their

> industries, however important they may be. The effectiveness of the measures (with respect to coal and steel) have been limited. The High Authority firmly believes that economic policies will be more effectively and spontaneously co-ordinated as integration becomes wider, and each country's stake in integration is extended.[26]

This indicates that not only was wider economic integration desired, but that it was also desirable in order to gain the full benefits from such cooperative efforts.

There is no doubt that the economic solidarity in Europe which grew out of these efforts, became an efficient means of unified action equal to the problems at hand; and the treaty establishing the European Economic Community was the fruit of the experience and achievements of the European Coal and Steel Community.

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[26] High Authority of ECSC, Sixth General Report on the Activities of the Community, Luxembourg, April 1958, p. 15.

CHAPTER III

THE EUROPEAN ECONOMIC COMMUNITY

A. Introduction

Although there had been signs of interest in economic cooperation within Europe prior to World War II, that war gave powerful stimulus to renewed action in this direction. The idea of economic integration is not something which swept across Europe to be accepted without question. Rather this concept followed logically from the success and benefits already achieved through post-war economic cooperation discussed in the previous chapter. Many of the reasons for the remarkable degree of post-war cooperation in Europe were equally valid in support of attempting economic integration.[1]

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[1] Subject matter covered in the "Introduction" and "The Institutions of the Community" is based mainly on information contained in, Department of External Affairs, "The Economic Integration of Western Europe", External Affairs, Vol. II, January 1959; Ibid., Vol. II, No. 2, February 1959; William Diebold, Jr., The Schuman Plan, A Study in Economic Cooperation", p. 636-668; Committee for the Common Market and Euratom, Treaty Establishing the European Economic Community, and Connected Documents, Brussels, Secretariat for the Interim Committee for the Common Market and Euratom, 1957, 378 p.; Royal Institute of International Affairs, "The Treaty for a European Economic Community - A Critical Analysis", The World Today, Vol. 4, No. 7, Oxford University Press, July 1958, pp. 304-315; Political and Economic Planning, European Organizations, London, Allen & Unwin, 1959, pp. 292-298; Political & Economic Planning, The Spaak Report - a summarized translation of Part I - The Common Market, London, Allen & Unwin,

Among the more fundamental causes had been the feeling that the state organization of 1939, along national lines, had failed and that a wider political grouping was necessary in order to eliminate the intra-European animosities. There was also the feeling that Europe was in no position to re-instate currency and trade barriers on the same basis as in the thirties, if it was to share eventually in the technological advances, which had characterized U.S.A. growth, and which called for a large single market at its base. There was, as well, the favourable background of geographical proximity within Western Europe, and the unfailing support from the U.S.A. for all movements directed towards greater unity in Europe.

In view of the success of the ECSC, the next logical step was to extend the pattern it developed for coal and steel to all trade and other economic activities. The present Treaty creating the EEC is essentially based on the experiences of ECSC, and it testifies to the success the latter has achieved.

At one stage in the developments towards a common market of wider scope, it seemed as if the whole movement would founder. The success of ECSC encouraged the supporters of

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December 1956, 98 p.; E. Strauss, Common Sense About the Common Market, pp. 72-106; The European Economic Community, New York, Société Générale (France), no date, approx. 1959, 46 p.; The New European Market, New York, The Chase Manhattan Bank, July 1958, 40 pages.

integration to move further - but as it turned out - with too much haste. They attempted to create a European army and a single defence policy for Europe under the European Defence Community. Work was also begun on the formation of a European Political Community. But the loss of French parliamentary support for EDC in 1954, brought all these plans to a more practical level. Economic integration soon came to be accepted as a prerequisite to political union.

Almost immediately after the defeat of EDC, the six countries now members of the Common Market, along with Britain, provided a substitute - Western European Union. Like EDC, it provided for combined defense, but it called only for inter-governmental cooperation and established no important supranational authority. This seemed to express the political reality of the time - that integration of armies should be made only after a solid economic and political foundation had been laid.

However, the blow which the defeat of EDC dealt to the advocates of broader economic integration was merely stunning, not deadening. The winter of 1954-1955 was marked by a revival of discussions about the best approach to economic integration. Included in such debates were a number of plans for a European Currency Commission, a Federal Reserve System and even a common currency. The main drive was towards adoption of similar national policies, easier financial transactions across national frontiers and a revival of the cooperation of central banks. On the whole, discussions exposed the general view that no major measures of economic integration could succeed, if they were confined either to particular industries or to trade alone. Even the BENELUX governments, partisans of partial integration, shifted their support to the broader approach early in 1955.

In the light of the many conflicting and competing views, and because most of its members were basically interested in further integration, the Assembly of the ECSC called on the foreign ministers of its member states, in May 1955, to organize a conference to look into the possibility of broader economic integration. Of course, the personal efforts and persuasive force of such men as Mr. Spaak and Mr. Schuman contributed to the progress achieved in this drive towards a broader approach to European economic problems.

The conference of the Six in Messina, Italy, in June 1955, gave practical consideration to the feasibility of economic integration. This conference, known as the "Messina Conference", led to an agreement amongst the Six, that the time had come for a new step on the road to European unity. Serious consideration was to be given to some form of joint action in the development of atomic energy and, ultimately, to the establishment of a common market. During the autumn and winter of 1955-1956 a committee under Mr. Spaak (then the Belgian foreign minister) examined the means for achieving these ends. In April of 1956, the "Spaak Report", containing a comprehensive plan for the joint development of atomic energy, and a somewhat less detailed plan for the progressive establishment of a European common market, was published. In May, this report was endorsed by the foreign ministers of the Six as a basis for the negotiation of definitive treaties. Two treaties emerged from these negotiations, creating - The European Atomic Community, known as Euratom, providing for the establishment of a common market for nuclear energy and related products, as well as for joint nuclear development - and, the European Economic Community.

By autumn of 1957, all the parliaments of the six member countries of ECSC had ratified the Treaty, and on January 1, 1958, it came into force, joining together, on an economic basis, the BENELUX, France, Germany and Italy. At first sight, the Common Market Treaty might well appear to be a replica of the ECSC Treaty, but in spite of basic similarity in concept between the two, there are important differences of emphasis. The executive body which was known as the High Authority under ECSC became the Commission in the EEC. The variation was more than just a change in name. One of the essential features of the earlier Treaty was the supra-national element which was vested in the High Authority.

The Commission in the Common Market also has important powers, but greater importance was given to the Council of Ministers, and the emphasis on supra-nationality was minimized. This change in emphasis should not be interpreted as a withdrawal from the ultimate objectives of a united Europe under common institutions, but rather it shows that the experience gained from ECSC and from the failure of EDC initiated a more cautious approach, which was well in keeping with the greater complexities of common economic activities. The Common Market Treaty shows a more cautious approach in its lack of details. It is a more flexible document, leaving to the Council of Ministers and to the Commission the task of working out details.

In general, therefore, it may be said that while the Treaty creating the European Economic Community was basically similar in terms to the ECSC Treaty, its provisions were drawn more widely, permitting the adequate flexibility which the much wider scope of this new undertaking required. Although the Treaty deals mainly with economic and social integration of its Members, the political objectives of such a union remained in the background. This underlying political influence was present in the Spaak Report which was based on the premise, that the ultimate purpose of this new scheme was to be the creation of a "third force" between the United States and the Soviet Bloc.

In formulating the more immediate purposes of the Treaty however, political objectives came second to economic considerations. The main purpose of the Treaty is to seek the strength, progress, improvement and stability in the economic and social conditions of their peoples through unity of action. It also declares that its Members are "determined to establish the foundations of an ever closer union among the European peoples",[2] and as such leaves the door open for future political integration.

No specific and inflexible provision could ever be drawn up which would deal adequately and efficiently with the numerous problems facing the administration of such a colossal undertaking uniting these historically segregated economies. It was therefore a very practical approach to lay emphasis on the requirement for a spirit of cooperation if success was to be secured, while concentrating mainly on the establishment of concrete, yet flexible, provisions to be administered by adequate and quasi-independent institutions.

B. The Institutions of the Community

In the creation of its institutions the Common Market has recognized the need for some form of supra-national control in cooperative undertakings of this nature, and although this

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[2] Preamble to Treaty Establishing the European Economic Community.

element is only at the nucleus stage, it is at least a first step in the direction of potential political unity, at which time a supra-national authority will have slowly emanated out of the practical developments, ready to take on the task at hand.

Article 4 of the Treaty provides for the Institutions of the Community. "The achievement of the tasks entrusted in the Community shall be ensured by - an Assembly , a Commission and a Court of Justice." "The Council and the Commission shall be assisted by an Economic and Social Committee...".

1. The Assembly

The Assembly, or the Parliament of the Six, forms the center of deliberation and, to some extent, political control within the Community. It is composed of delegates from the parliaments of member countries. These delegates are, at present, appointed by their respective governments. Germany, France and Italy have 36 representatives each, and the BENELUX has 32. One of the tasks of the Assembly consists of drawing up proposals for the uniform procedure of elections by direct universal suffrage in all member states.

The Assembly reviews the annual report submitted by the Commission and can censure any activities of the Commission by a two-thirds majority vote. The Assembly may also discuss, and suggest modifications to the proposals submitted by the Council. Various provisions in the Treaty require that the Assembly must be consulted before action is taken by the Council or the Commission. It must, for example, be consulted in the elaboration of the provisions about agriculture, the right of establishment of business and movement of labour, and the implementation of a common transportation policy.

The Assembly is a common organ of the European Economic Community, the European Atomic Energy Community and the European Coal and Steel Community. It replaces the Common Assembly of ECSC.

Although the activities of the Assembly appear somewhat superfluous, especially in comparison to the wide executive powers given to the Council, it nevertheless remains a very important institution of the Community. It represents the nucleus of a true central parliament which would be required to achieve political unification, or some form of confederation.

2. The Council of Ministers

The Council is the policy-making body, the executive, of the Community. It is composed of six representatives, one from each member country. It has important powers of decision, and is responsible for ensuring the co-ordination of general economic and social policies of member countries. During the first stage of transition most of its decisions must be taken by unanimous vote; thereafter, particularly when the Council will be acting upon proposals formulated by the Commission, a qualified majority will be sufficient.[3]

The Council may be viewed as the most important institution of the Community not only because it is responsible for the execution of the Treaty, but also because it is both a link between the Community and the six national governments and is the principal policy-making body of the Community.

3. The Commission

In effect, the Commission is the Community's civil service, its administrative body or secretariat. It has nine members chosen for their general competence and independence, with not more than two members having the nationality of the same State. In supervising the day-to-day operations of the Community, it works closely with the Council. It may formulate proposals for Council decision; it administers Council decisions and ensures they are put into effect by all members concerned.

Although, as indicated above, policy-making decisions are the responsibility of the Council, the Commission exercises

[3] To reach a qualified majority, twelve votes are required and the votes of the member countries are usually weighted as follows: four each for France, Germany and Italy, two each for Belgium and Netherlands, and one for Luxembourg. In cases where the Council is not acting on a proposal of the Commission, the twelve votes must include at least four member states; the three large countries will, therefore, have to have at least one of the Benelux countries in agreement with them.

certain powers of decision of its own. The most important of these powers relates to the use of escape clauses in a balance-of-payments crisis, or where there are serious difficulties likely to persist in any sector of economic activity, or difficulties which might impair the economic situation in any region. In these cases the Commission, not only authorizes the country affected to take action, but specifies the precise measures to be taken. Similarly, where disparities in monetary and commercial policies give rise to serious difficulties in particular areas or in one country, the Commission can authorize protective measures, specifying their nature and duration.

4. The Court of Justice.

The Court of Justice, composed of seven judges, has the duty of hearing complaints referred to the Commission by member states, and of passing judgements on the legality of the rules and decisions adopted by the Community. In brief, its duty is to ensure the observance of law and justice in both the interpretation and application of the Treaty. As in the case of the Assembly, the Court of Justice applies to Euratom, ECSC as well as to EEC.

5. The Committees

A continuing Economic and Social Committee with consultative status has been appointed by the Council. It is composed of independent citizens of Member countries, who represent the interests of all economic sectors in the Community. The Committee includes specialized sections in such fields as agriculture and transportation. To initiate specified measures, as provided in the Treaty, the Council or Commission must consult with the Committee.

In order to promote policy co-ordination and stability in monetary matters and to study related problems, a Monetary Committee has also been formed. It is composed of two representatives from each Member State and of two, named by the Commission.

C. The Customs Union

The initial purpose of the European Economic Community is the establishment of a customs union. It is one of the most important features of EEC since it is an immediate and concrete commitment. The adoption of its principles by Member States will result in the abolition of customs duties and all charges with equivalent effect on the exchange of goods between themselves and the adoption of a common customs tariff for trade with countries outside the Customs Union.

1. Internal Trade

The Treaty provides for the abolishment of customs duties and all equivalent charges in this sphere of trade over a period of at least 12 years and not more than 15 years.

Based on the duty applied in each country on the first of January 1957, reductions in tariffs would be made in stages of four years each. The first stage included an initial reduction equal to 10 per cent, one year after the entry into force of the Treaty, with two other reductions of 10 per cent each to follow at 18 month intervals thereafter to achieve a 30 per cent total reduction by the end of this four-year period. Similar reductions would be made in the second four-year stage. Reductions covering the remaining 40 per cent would be carried out in the course of the third stage, with their timing fixed by decision of the Council. The proposed twelve-year transition period may be altered by permissible one-year extensions of the first stage, but, in any event, the total transition must not exceed fifteen years.

In order to achieve a true position of free trade between countries, not only must tariff barriers be abolished, but also quantitative restrictions. Impressive progress was already made in reducing quantitative restrictions on trade under OEEC arrangements. Such restrictions have now been placed in the position of exception rather than general rule. The remaining quantitative restrictions will be removed over the transition period, eventually achieving complete abolition of these impediments to trade. As an initial step, the Treaty specified that, in general, quotas of a bilateral nature will be converted to Community quotas by the end of the first year. Thus any quotas which France might apply against certain imports from Germany would become open to all members of the Community. Exceptional cases and individual problems such as restrictions equivalent to quotas will receive due consideration by the Commission and the Council. Activities of State monopolies will also be adjusted progressively under the guidance of the Commission to ensure the early abolition of discrimination against competitive trading.

2. External Trade

Under this section of the Treaty, Member States are committed to negotiate adjustments in their individual tariffs in such a way as to effect a common tariff by the end of the transition period. In general, the basis of the tariff schedule which will ultimately apply will be the arithmetical average of individual tariffs in effect on January 1, 1957, subject to maximum rates for specified lists of goods in the respective general categories of 3 per cent for industrial raw materials, 10 per cent for semi-finished goods, 15 per cent for inorganic chemicals and 25 per cent for organic chemicals. The difference between the basic duty of each country and the ultimate common duty is to be adjusted by 30 per cent respectively during the first and second stages, with remaining adjustments to follow during the last stage. In addition, a more uniform application of legislation and administration is to be sought by Member Countries in regard to customs matters.

D. The Broader Economic Community

As the name implies, the European Economic Community stands for much closer economic unification than the mere creation of a customs union. In order to achieve the intended broader objectives, it was necessary to realize a solid basis of co-operation and to determine the more detailed problems to be resolved. This called for the creation of various institutions belonging to the Community to provide the required degree of uniformity and control. It also called for deliberation and the determination of principles and methods which would ultimately integrate the segregated economic activities of Members into a uniform economic entity. Member Countries recognizing the impossibility of attaining such unity through rigid treaty provisions have limited themselves to promulgating general principles of approach, leaving to subsequent negotiations and discussions the more specific solutions to be enacted.

1. Agriculture

As might be expected, agriculture presents to the Community a particularly difficult problem. Agriculture is generally a Government subsidized industry, and to withdraw such support would perhaps be politically unwise. Thus, in their attempts to include agriculture in EEC, Member Countries have agreed in the Treaty to initiate a common agricultural policy. With a view towards increasing productivity, stability and prosperity of the agricultural sector, this policy may embody such features as price controls, subsidies, stock-piling arrangements and common import or export controls. It is apparent that as far as this area of trade is concerned, the objective will be limited to obtaining a uniformly protected market divested of discrimination rather than a completely free one.

2. Transportation

The broader problems of co-ordination, standardization and control over transportation are not provided for in detail in the treaty. The treaty simply outlines the objectives and the means of achieving an eventual common transport policy. To this end, the Council acting on proposals from the Commission, and after the Economic and Social Committee and the Assembly have been consulted, is to lay down common rules applicable to transport within the Six. Uniform regulations are to be established on inter-member traffic, including conditions and controls under which a carrier will be permitted to operate. All discriminatory rates and conditions based on the country of origin or destination will be eliminated by the end of the second stage. Rates or conditions established for the purpose of protecting or subsidizing a firm, or an industry, will, in general, be prohibited after the first stage, unless specifically authorized by the Commission. These provisions will apply to transport by rail, road and inland waterways. Similar action may also be taken concerning sea and air transport, if the Council so decides.

It is quite clear, serious attention will be given to adjust rates, charges and subsidies applicable to internal transportation, without difference or discrimination between member states. However, such adjustments will be made only if they do not result in serious economic distortions in individual countries or industries. In effect, solution to the transportation problem will be sought with a view towards the overall objectives to the treaty, but subject to considerable flexibility, with immediate results limited to the reduction of unjustifiable discriminating practices.

E. Free Movement of Persons, Services and Capital

Persons and Services

By the end of the transition period, citizens of member countries should find no discrimination or added difficulty in seeking gainful employment in any of the member countries. Adjustments to this end will be managed by the institutions of the Community and will include progressive approximation of labour laws, employment policies, social security, even municipal laws related to this problem, and elimination of any other impediments to the freedom of movement and establishment of citizens. Similar rules will be devised to effect elimination of restrictions on the free flow of services within the Community, such as in the field of insurance, banking, financing and the liberal professions.

Capital

During the period of transition, existing restrictions on the movement of capital between member countries will be removed. Should any protective measure be introduced by a member country to restrict the freedom of capital flow, it will require the sanction of the Council. Inasmuch as fluctuations in exchange rates and differences in economic policies between member states will affect the freedom of capital flow, closer cooperation in these matters will be sought, and both the Commission and Council will take appropriate measures to this effect.

F. Associated Overseas Countries and Territories

The Treaty provides for the association with the Community of the non-European countries and territories that have special relations with Belgium, France, Italy and the Netherlands. Before any of these countries or territories had reached complete independence or special independent status, they were: French West Africa including Senegal, the Sudan, Guinea, the Ivory Coast, Dahomey, Mauretania, the Niger and the Upper Volta; French Equatorial Africa including the Middle Congo, Ubangi-Shari, Chad and Gaboon; St. Pierre et Miquelon; the Comoro Archipelago, Madagascar and dependencies;

the French Somali Coast; New Caledonia and Dependencies; the French settlements in Oceania; the Southern and Antarctic Territories; the Autonomous Republic of Togoland; the French Trusteeship Territory in the Cameroons; the Belgian Congo and Ruanda-Urundu; the Italian Trusteeship Territory in Somaliland; and Netherlands New Guinea.

In brief, the provisions for overseas territories in the treaty foresee the opening of the Common Market to them, and special financial assistance through the Development Fund. Eventually, any common market country should be able to invest in, and trade with, any of these overseas members on the same conditions as those accorded the "parent" country. Although the complete abolition of customs tariff remain the ultimate goal, affiliated countries will retain some freedom to maintain duties in accordance with budgetary needs and development requirements, provided such action shall become progressively non-discriminatory. No provision is made for these countries to adopt the common external tariff of the Community. Consequently, any one of the Six may be allowed to take protective action against the possibility of diversion of trade which may arise as a result of the existing level of external customs duties in any of the territories.

Recently, several of the overseas territories mentioned in the treaty have reached independence. It has not yet been decided whether such independent countries will be permitted, or in fact will desire, to participate as affiliates in the Common Market.

G. Financial Provisions

An annual Community budget is drawn up to cover the estimated revenues and expenditures of each institution, including those relating to the European Social Fund. Expenditures under the budget are balanced by member contributions, fixed in accordance with two scales of percentages provided for that purpose. One scale of contributions is intended to meet the expenses of the European Social Fund, while the other applies to the general expenses of the Community.

The treaty also provides that the Commission study the possibility of replacing financial contributions of members by the revenue eventually accruing from the establishment of the common external tariff. This provision, if it is carried through, would strengthen the Community inasmuch as it implies the creation of a central body to administer and collect duties.

1. The European Social Fund

Under the administrative authority of the Commission, the European Social Fund covers fifty per cent of individual members' expenses to ensure re-employment of displaced labour and to facilitate labour mobility. Although the effects of the common market upon labour will be different in each member country, the costs of relieving financial and other difficulties accompanying labour displacements, will be shared proportionately by all, through contributions in the annual budget.

2. The Development Fund

The Development Fund has been set up to promote social and economic development of overseas countries and territories. As provided in the treaty, European States will contribute \$581 1/4 million, of which \$511 1/2 million are to be set aside for development programmes in French Territories. Further arrangements for assistance to these affiliated members will be negotiated five years after the commencement of present assistance.

3. The European Investment Bank

An initial capital of \$1 billion is to be contributed by member countries in to this bank. These funds will be used for development schemes in the less developed regions of the Common Market area itself. They will be used for reconversion schemes and for large projects of general interest in the attainment of the overall objectives of the treaty. Member states will also be required to supply direct loans to the bank during the course of its activities, if such resources are not readily available in international capital markets.

H. Early Developments

The implementation of the common market treaty gained momentum with the consolidation of several practical measures in the early transition period.[4] The initial measures towards the complete abolition of all trade barriers within the market were introduced on January 1, 1959. This included the first reductions in tariffs between member countries and the liberalization of quotas. Tariffs on trade within the Community were reduced by an average of 10 per cent, while in the field of quotas, the Six removed the total value of remaining quantitative import restrictions by not less than an average of 20 per cent.

In consolidating these measures laid down in the treaty, the Six decided to extend most of the 10 per cent tariff reductions to third countries enjoying most favoured nation treatment, provided no individual reduction would bring national tariffs below the prospective level of the common external tariff. Member countries were permitted considerable discretion in carrying out this decision. Relaxations in quantitative restrictions were also generally extended to third countries, but individual members were allowed to require reciprocity, or to extend such benefits on a bilateral basis only.

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[4] Material on current developments was accumulated basically from, Camps, Miriam, Division in Europe, London, P.E.P., Occasional Paper No. 8, June 1960, pp. 5-12 and 41-54; Department of Trade and Commerce, "European Trading Arrangements", Foreign Trade, Vol. 114, No. 1, July 1960, pp. 42-46; U.K. Board of Trade, "Acceleration of Common-Market Time Table", Board of Trade Journal, Vol. 179, No. 3297, May 27, 1960, pp. 1142-1146.

Of particular interest were the developments in the agricultural sector. As envisaged in the treaty, an Agricultural Conference was held in July, 1959, in Stresa, Italy.[5] This was to be the first step towards the elaboration of a common agricultural policy. In an agreed resolution, they set forth their views on the most important problems connected with agriculture in Europe, and reaffirmed the social importance of this sector. At the same time, they gave recognition to the fact that protective measures, even in this area, have certain limitations beyond which economic considerations should take precedence over social obligations. The views were expressed as a formal Resolution and were used, in large part, by the Commission in presenting its proposals for a common agricultural policy.

The common agricultural policy contains discernable evidence of intentions to achieve self-sufficiency in agricultural production. The basic tool of such a policy will be a pricing system aimed at establishing common prices for all important agricultural products based on cost levels in each area. This could result in higher prices, protection from lower cost imports through levies and quotas, and even the possibility of partly subsidized exports to relieve any surplus situation that might arise.

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5 The Chase Manhattan Bank, "A European Farm Policy", Western Europe, issued bi-monthly by the Economic Research Department, No. 9, August-September, 1960, 4 pages.

In preparation for the succeeding steps to be taken, discussions were held during 1959, and several proposals were put forward with a view of consolidating the measures already achieved, in the belief that such new measures would serve to strengthen the integration process as a whole. At the meeting of the Council of Ministers held in Strasbourg in November of that year, these various discussions and proposals were assimilated and put forward in the form of decisions. At this meeting it was agreed that the long-term objective should be the complete abolition of quotas on a world-wide basis. As a start they decided that the 20 per cent-quota enlargement scheduled for January 1, 1960, would be extended to all members of the GATT, at the discretion of each Member who could proceed through bilateral arrangements if so desired. Similarly in the field of tariffs each Member was given the right to decide for itself whether to extend to third countries the internal tariff reduction of 10 per cent envisaged for July 1, 1960.

Although the quota enlargements were generally extended to third countries as proposed, the decision regarding tariff cuts was superseded by the outcome of the meeting of the Council of Ministers in Luxembourg, in May 1960. At this meeting it was agreed that a shortening of the transition period was desirable, and that the best method for achieving this would be by an acceleration in the tariff cuts scheduled in the Treaty. It was therefore decided to supplement the 10 per cent tariff reduction envisaged for July 1, 1960 by a 20 per cent reduction, although the implementation of the additional 10 per cent cut could be postponed until December of that year. It was also agreed that the 10 per cent tariff reduction scheduled for December 1961 should be increased to 20 per cent. This reduction could also be extended to third countries, on a most-favoured-nation basis, provided no tariffs were brought down below the level of the proposed common external tariff, and subject to reciprocity.

The Ministers also agreed to speed up the movement of national tariffs towards the level of the Common Market tariff by introducing adjustments scheduled for December 1961 on December 31, 1960. However, many items were excepted from this accelerated step. In addition it was proposed that these adjustments would be made on the basis of the proposed common tariff reduced by 20 per cent. However, this move was made subject to consolidation at the GATT Conference table of 1960-1961, on the basis of reciprocity from third countries.

The main significance of these various developments is that by the end of 1961 internal tariffs amongst the Six will have decreased by 50 percent instead of by 30 percent as scheduled in the Treaty, all quantitative restrictions will have been abolished on industrial products originating within the area, and the first step in the adjustment of national tariffs towards a common level will have taken place one year ahead of schedule. One of the main drawbacks of this acceleration for third countries is that it involves an earlier upward movement of those tariff items which are at present below the proposed common tariff level. This is of special concern to Canada since about 70 per cent of Canadian exports to the EEC are absorbed by low tariff countries - Benelux and Germany. In addition, an acceleration in the upward revision of tariff levels will be prejudicial to the success of future attempts in international negotiations at bringing about a significant reduction in the overall common tariff level to be applied in the final instance. On the whole, achievements to date indicate that the EEC is prepared to move swiftly and unhesitantly to the successful attainment of its goal. The problem of agriculture remains an important threat to significant liberal developments, although protectionist views in other sectors have, by no means, been completely abandoned. This is especially true with regards to certain industrial raw materials such as aluminum and lead. Imports of aluminum are controlled by annual quotas and enter at a 5 per cent rate of duty, provided it is processed in the country of import. Any member desiring to import in excess of the quota for that year must pay a rate of duty of 10 per cent. Previously, Germany, the main importer, and Belgium and Netherlands were admitting aluminum free of duty. Similar quantitative arrangements have been arranged for unwraught lead, and in addition, Italy may prohibit imports of this product for a period of six years. However, these various protectionist provisions are currently being discussed at the 1960-1961 GATT Conference, and the outcome of these negotiations should bring these policies in better focus.

I. Implications

1. Internal Effects

During the first few years of transition progressive reductions in tariffs and abolition of the few remaining quantitative restrictions will constitute the primary objectives. As far as quantitative restrictions are concerned, the extent of liberalization achieved under OEEC does not leave much room for improvement, except that now it will be more difficult for individual countries to reimpose such trade barriers.

For the remainder of the transition period Member countries will obviate any serious distortions in their economies by resorting to the many "escape clauses". Certainly, it should not be expected that the transitional period will bring great geographical dislocations of industries, re-adaptation of existing industries to different types of production, or any withdrawal of large enterprises from the market in the name of efficiency. Such adjustments will come only after the Common Market becomes truly common.

What may be expected to occur is a progressively increasing flow of internal trade, such as occurred after OEEC, EPU and ECSC. A basic determinant of economic expansion is the extent of the market, for as the market widens so are the opportunities for greater specialization, production to scale and the potentialities for rising productivity increased. These possibilities for dynamic economic progress will assuredly become attainable within the enlarged Euromart. Transportation costs will decline and become equalized throughout the area. Many enterprises will amalgamate to be in a better productive and marketing position. The aggregate GNP of the area will enjoy appreciable increases and will lend strength and economic stability to the whole market. The effects of increasing production will gradually produce a higher level of investments and the existing industries will add to their productive capacities, while benefiting from the advantages of "mass production".

Once the Common Market becomes a real entity, then the interplay of competition will be strong enough to cause redistribution and re-adaptation of enterprises according to economic principles. And as increased productivity, efficient use of resources and regional specialization begin to show their results, the Common Market should not do otherwise but achieve greater economic strength wherein lies the possibility for increased standards of living.

Of course, the process will be slow and many hardships will have to be overcome to achieve such results, but given the present desire for unification and the economic principles upheld by the majority of its leaders, Europe should succeed in the long run.

No drastic change in investment between member countries can be expected until the flow and level of trade proves them to be economically warranted. Harmonization of economic and social policies may be somewhat delayed by political implications. And the real effects of political attempts at "harmonization" will not be felt until Members of the Community come into closer contact with each other through the freedom of movement of goods, persons and capital.

The establishment of the freedom of movement of persons will not alter the Common Market in the near future. It takes much more than a legal right to convince a labourer to move to a different country, with a different language and customs, and in some instances - a past enemy. Moreover the first problem to be met in this respect will be the provision of adequate housing to facilitate such moves to any appreciable degree. This same problem was not overcome during the first five years of ECSC.

The freedom of movement of capital is not so much dependent on the existence of a Common Market, but rather it depends on the strength of each Member's foreign exchange reserves. If the establishment of EEC succeeds in strengthening European multilateralism, as it obviously should, then this problem should resolve itself to an even greater extent than was achieved under EPU alone.

The impact of the Customs Union on agriculture and on overseas territories is the most difficult to assess in view of the lack of detailed provisions in the Treaty. It does seem, however, that both these sectors of economic integration will carry greater external effects than within the area proper. Agriculture will continue as a protected market and it is obvious that the process of unification will tend to make Europe more self-sufficient in agricultural production. However, through the use of "minimum prices" any increase in internal trade of agricultural goods will not directly affect competition or prices. Agriculture will continue to be an economic problem with major policital and social overtones.

Special tariff and quota concessions granted to Overseas Territories should be favourable to their economic growth and stability. In effect, it will assure them preferential treatment in an expanding European market. Of course, France also stands to benefit from the strengthening effect such treatment will have on its overseas dependencies. Moreover, the provision of the Development Fund means that while French possessions will benefit from European investments, France will enjoy a reduction in its financial obligations vis-a-vis its dependencies. However, the creation of, what is in effect, a unilateral preferential tariff area will undoubtedly hurt the trade of many primary producing countries outside EEC, especially producers of such staples as coffee, bananas and cocoa and industrial raw materials such as aluminum and copper.

Overseas territories will retain their own tariff schedules so that no direct repercussion should be felt within EEC proper. However, to the extent that increased imports from the territories and European investments in these countries strengthen their economies, an increase in exports from the Community to these territories should result.

Although the Treaty does not provide for the eventual introduction of a common monetary unit for the Community, it does call for complete currency convertibility and stabilization of exchange rates. The implementation of exchange stability excludes the resort to any other corrective techniques except those of internal fiscal and credit policies. This implies the harmonization of budgetary, economic and social policies of Member Countries and the Treaty makes provision for such developments. In effect, therefore, the economic obstacles to be overcome in establishing currency convertibility at stable exchange rates are identical with those facing monetary unification. However, the political elements in the problem are at variance. Monetary unification implies a popular acceptance of political integration, it contains an irreversible character not present in a stable exchange rate, it necessitates administrative and institutional changes and the creation of a central monetary authority.

Although monetary unification contains many economic advantages it is not a prerequisite for economic integration. Monetary unification of European currencies may well be an important aspect of any ultimate evolution of broad political unification, but it is quite unlikely to precede it.

A very important consideration from a long run point of view is the extent to which the Common Market will contribute to the desired ultimate objective of political integration. In view of the traditional segregation of these countries, unification at the political level may well require its acceptance by a new generation of Europeans. However, this development could occur with greater haste, given the intensification of international forces towards large political blocs. There is a provision in the Treaty requiring the Assembly to put forward proposals for direct elections to be held throughout the Community's countries. If such proposals are put into practice, there will be created a European Assembly directly responsible to the inhabitants of the six countries themselves, and not limited to an indirect responsibility through separate national parliaments as at present. The first step towards political unification of Europe will then have been taken.

2. External Effects

The main effects of economic unification in Europe upon third countries will be in the fields of trade and investment, including the establishment of foreign subsidiary companies in the area.

Foreign trade of Western Europe is very large in relation to its production of goods; it is also highly diversified both in terms of commodities and of geographical areas. Primary products play an important part in Europe's imports and their requirement should increase with the growth in economic activity. However, the preferential treatment allotted associated overseas territories will probably adversely affect some countries dependent on European demand for the sale of their goods, especially agricultural commodities.

The effects upon imports of manufactured products will be dependent upon the cost structure and the degree of productive diversification which is ultimately achieved in Europe. Western Europe trades about as much with third countries as it does within itself, and this trade pattern seems to be highly influenced by the availability of materials in Europe. The effects of progressive tariff abolition in Western Europe should not cause repercussions upon world trade to any great extent, until the results of the larger competitive market in Europe have shown themselves in the form of new enterprises, greater efficiency of production and wider diversification of industries. But during this transitional period, the rest of the world will have the opportunity to meet the challenge of these gradual developments by progressive adjustments in productive capacity and trade pattern. The only countries which should actually suffer from this growth pattern are those wishing to retain a static stability based on protectionist policies. With Western European economic integration being pursued in an atmosphere of competition and gradualism, world trade should not suffer significantly at the start and should benefit markedly in the long run by the increased economic activity permissible in the larger single market. The increase in the level of trade, which followed the process of industrialization, technical specialization and income growth in countries which are now industrialized, should also be an expected result of similar developments in Europe. Contrary to what might be expected from the apparent growth in self-sufficiency, industrialization promotes an increase in the quantity and diversification of international trade in the same way that it promotes an increase in income and standard of living. The substitution of any one, or even broad groups, of products available within the Common Market for goods previously imported will not necessarily reduce the total demand for imports. To accomplish the latter objective, stringent curbs on the total claims on resources by governments, businesses and consumers would be required.

However, even with the maximum amount of import substitution that is realistically conceivable and despite high tariffs, if such should come about, the EEC's total import requirements are likely to rise over the decades. As the economies of the Six move progressively towards higher levels of national income and standards of living, new types of imports necessary to sustain this progress will outweigh any import economies achieved in other areas.

The continued protectionist approach expected of France and Italy will be counterbalanced by the more liberal attitude of Germany and the Benelux, and may be subdued by the political aspects of EEC. The outright adoption of French policies would tend to place the Community at a cost disadvantage with respect to the rest of the world. Moreover, the strong do not usually submit to the weak indefinitely, and it is very unlikely that a strong and increasingly influential Germany will renounce the gains it has earned through the pursuit of competitive and liberal policies, internally as well as externally. It seems quite likely that a compromise policy will evolve from within the Community, in line with the cost and income structure and the trade policies of the rest of the Western world. Thus the effects of the European Economic Community on world trade may be expected to follow very closely the consequences of a compromise policy between liberalism and protectionism in trade, closely resembling current U.S. trade policy.

J. European Free Trade Association

The original proposal for a free trade area in Europe antedated the signature of the Rome Treaty. It had its origin in the evolution of the negotiations, within OEEC, which led to the Messina Conference.

During the summer of 1956, when the proposals for a European common market were just beginning to take shape, the OEEC set up a special working party to study the possibility of a free trade area embracing all members of OEEC, including the Six.[6] This move was partly designed to prevent the occurrence of a division in Europe, but it was also intended as an alternative in case the Six met with failure.

The report of the special OEEC Committee published in January 1957 concluded that the operation of a free trade area in Europe was technically possible. At that time there was, outwardly at least, great hope for the success of this endeavour. Even the United Kingdom government, which traditionally had preferred to remain outside of any strictly European trade arrangement of this type, was willing to participate actively in the formation of Europe-wide industrial free trade area.[7] Negotiations for such a free trade area were carried out

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[6] France Rogé, "Perspectives d'une petite zone de libre échange", Etudes et Conjoncture, No. 10, octobre 1959, pp. 959-980.

[7] U.K. Information Office, Negotiations for a European free trade area; documents relating to the negotiations from July 1956 to Dec. 1958, London, H.M. Stationery Office, Cmnd 641, Jan. 1959, 237 p.

during 1957 and until the end of 1958, when they broke down and were suspended indefinitely. The impasse was due mainly to the impossibility of reconciling the conflicting views of the various countries on basic issues of commercial policy. The Six were anxious to preserve the integrity of their new undertaking and to avoid the erosion of the commercial advantages it embodied. The other European countries, and particularly the U.K., were anxious to avoid trade discrimination in Europe, but wished to retain control over their external trading relationships.

Faced with the impossibility of achieving a Europe-wide free trade area, seven of the European countries outside the Common Market sought to establish free trade on a separate regional basis. Through such an approach it was hoped that trade among themselves would grow, thereby minimizing whatever trade dislocation might result from EEC. Moreover, their unification in a free trade area would improve their bargaining power for continued access to the markets of the Six.

Negotiations towards this end resulted in the establishment of a European Free Trade Association (EFTA) in November of 1959.[8] This new regional grouping, commonly

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[8] Convention Establishing the European Free Trade Association, London, H.M. Stationery Office, Cmnd 906, November 1959, 55 pages.

called the "Outer Seven" because of its geographical location relative to the Six, united Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom in the common purpose of gradually removing tariffs and quotas on industrial products traded amongst themselves. Special treatment, although not necessarily free trade, for agricultural products is also permissible. The initial tariff reduction of 20 per cent was effected on July 1, 1960. This placed the level of transition within EFTA on the same basis as that adopted by EEC. The remainder of the transitional period follows roughly the same schedule as in the EEC, and should be completed by 1970.

In other respects, however, there are marked differences between EFTA and EEC. Fundamentally, EFTA is endeavouring to promote free trade among its members with a minimum of commitments on their part regarding domestic economic and financial policies. Most important, EFTA allows members to retain their individual tariffs toward outsiders, change them at will, and independently conduct commercial negotiations with other nations. This is in marked contrast with EEC provisions, and the issue of external tariffs was one of the main reasons for the failure of negotiations for a Europe-wide free trade area.

The retention of individual external tariffs presented the possibility of "deflection of trade" within the Seven.

Theoretically imports from third countries could enter EFTA via one of its members with a low external tariff, for transhipment (eventually free of duty) to another member with a higher external tariff. To mitigate such "deflections of trade", certain "rules of origin" were agreed upon in the Convention. In general, goods not wholly produced within the free trade area enjoy area tariff treatment only on one of two conditions: if less than 50 per cent of the value of such goods consist of materials imported from outside, or if they are produced within the area by specified processes.

Since EFTA does not envisage formal economic integration, but simply closer economic co-operation and trade liberalization, it follows that its institutional organization should be less encompassing than that for EEC. It has only one formal body, The Council, which is composed of one representative from each member country. Each representative has only one vote. The Council is charged with the task of implementing the Convention and considering whatever further action should be taken to promote the objectives of the Association.

On the whole, except mainly for the provisions concerning tariffs, quotas and rules of origin, the immediate form and provisions of the Convention establishing EFTA have been kept simple, and the way left open for substantial modifications in the nature of the arrangements. This is in keeping with the very nature of this regional trade grouping which does not foresee economic integration as its objectives. On the other hand it is also an indication of the tacit realization that their Association will need to adapt itself to the trade and economic climate resulting from the ultimate achievements of their closely integrated competitors within EEC.

Views on EEC and EFTA

Whereas EEC constitutes a logical association of countries from the point of view of geography, trade and economic comparability, the same cannot be said of EFTA.

EEC countries are geographically well located in relation to one another and form one common boundary with outside countries. EFTA countries are more or less dotted throughout Europe, in many cases separated by land or sea.

The established trading pattern within EEC is favourable to economic integration. EEC nations trade less with EFTA countries than with one another, and less than half of their exports go to countries outside Europe.[9] In contrast, EFTA countries sell more to the Common Market than to one another, and send some three-fifths of their exports to non-European markets. Within these two respective trading areas,

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[9] France Rogé, "L'Association Européenne de Libre Echange", Etudes et Conjoncture, No. 10, Octobre 1960, pp.871-884.

the element of competition is different. In view of the U.K.'s relatively collossal capacity for imports compared to other EFTA countries, the element of competitive trading would appear to be smaller in this group. The existence of this one large importer provides a much better scope for shifting the trade pattern of the area as a whole. By switching its imports away from third countries, the U.K. is in a position to increase sizeably the exports of its EFTA partners. In turn, this would strengthen the area as a whole by placing the partners in a better position for increasing their imports from the U.K. The U.K.'s trade deficit alone is equivalent to nearly 50 per cent of total exports from the rest of EFTA. Thus, by switching its imports by a value equivalent to its trade deficit, the U.K. would increase significantly, and rather easily, the total exports of the rest of the area. No individual country within EEC has such relative strength vis-a-vis its trading partners. They are more equally balanced and thus more conscious of competition. Moreover, within the EEC, the largest importer, also has the largest favourable trade balance, so that any increase in its imports from within the Six would affect its international trade balance more significantly than for the U.K. who is already running a high trade deficit.

Comparisons between these two groups from the point of view of population and economic strength also indicate basic differences. The total population of the Six is about 170 million with a G.N.P. equivalent to approximately $160 billion. In addition the individual countries within the Six (taking Benelux as one country, and except for the south of Italy) are all closely equivalent in terms of standard of living and industrial strength. Total EFTA population is about 90 million, with a G.N.P. for the area as a whole equivalent to approximately $100 billion. The disparities in economic strength between its members are more obvious, such as between the U.K., Switzerland and Sweden, who have reached the higher levels of standard of living and Portugal and Austria who can, by no means, be called strong economic entities.

The various differences between EEC and EFTA point to the fact that the initial relative economic position of individual countries within the Common Market were more favourable to co-operation and integration at the economic, and possibly even political level. On the other hand the disparities between partners in EFTA indicate it would be difficult to go farther than the objectives of free trade, into economic integration. This also confirms that this latter grouping was motivated not only by the positive desire to increase trade between themselves but also with the Common Market and on a broader international front.

The puzzling question emanating from the interplay of these two groups, is whether a Europe devoted to liberalism, or one imbued with protectionism will evolve. Certain provisions in the Treaty establishing EEC lend evidence of protectionist tendencies - for example the eventual commom tariff to be established will be higher than exists now in most countries - the inclusion of overseas territories introduces a new preferential trading system - the provisions for harmonization of economic policies will bring social security costs to the level of the highest cost country.

On the other hand, since Common Market countries are also important world traders, the existence of a successful free trade area right at its doorstep should encourage Europe to pursue more liberal policies. By its very existence, and the traditionally liberal trading policies of most of its members, it will undoubtedly instill a keener sense of competition in intra-European trade.

However, the influence of the free trade area countries upon trade policies adopted by the Six will depend on the success of EFTA itself. The technical difficulties in a plan such as EFTA place it at a disadvantage with EEC insofar as efficient and successful administration is concerned. In EEC the task of administration is simplified by the fact that each member relinquishes a certain amount of its national autonomy to the community's institutions. In EFTA, supranational authority has been avoided. Problems such as the determination of origin of goods, proper usage of escape clauses, deflections in trade, present quite a difficult administrative challenge in themselves - a task nearly impossible to accomplish, on an efficient and permanent basis, under the loose control of an international authority. A co-operative scheme of this sort is basically dependent on the goodwill of its members, and seems destined to become only a temporary arrangement, until some basic disagreement between the partners arises and renders the continuation of the project impossible, under any other form but one with supranational authority. Thus, outside the direct economic effects it will have upon its members, and the indirect effects upon the Common Market, EFTA can be interpreted as an intermediate step towards some form of economic community.

Since it is unlikely, the establishment of some form of economic community will be possible within EFTA, it seems that the end result will be the accession of individual EFTA countries to the EEC. One of the most important countries, in considering this possibility, is the United Kingdom. It would appear from recent speeches made by Mr. MacMillan that the U.K. is destined to join the Common Market.[10] How many

[10] On February 27, 1961, the United Kingdom informed the E.E.C. that Britain was now willing to accept a common or harmonized external tariff on non-farm goods as part of a settlement with E.E.C. The ministers of the Western European Union composing the U.K. and the six countries of the E.E.C. are to meet before the end of May for a more detailed discussion on the matter.- Canadian Manufacturers Association, "New Developments - European Trade Areas", Industrial Canada, April 1961, p. 52.

of the countries of EFTA will follow suit is difficult to say, although it is unlikely Switzerland will sacrifice its traditional position of neutrality to some form of supra-national institution. The Scandinavian countries may well attempt to join EEC as a unit.

Whatever the outcome, it is obvious that EFTA without the U.K. could never be successful, but it is equally apparent that the U.K. would not abandon its partners without obtaining special concessions or fair treatment from EEC on their behalf.

The outlook, therefore, is for an extension of free trade to encompass larger groupings in Europe. The larger single market thus created will lend support to the extension of liberalization. It will reduce the influence of the few highly protectionist countries, by its larger membership. Moreover, it will introduce a greater degree of competition within its own boundaries and a greater potentiality for investment and growth. This should minimize the need for protection, even from a point of view motivated by enlightened self-interest. It seems evident that a united Western Europe within EEC, or under some other scheme adapted to meet EEC requirements, will stand a much better chance of achieving a liberal economic policy, to the same degree that the United States and other world traders are willing to pursue.

CHAPTER IV

IMPLICATIONS FOR CANADA

A. Introduction

International trade is very important to the Canadian economy. Canada is amongst the five leading world traders, and its dependence on exports is generally recognized as an important element in overcoming the drawbacks of its small and de-centralized population. Large manufacturing operations in this country require sustenance from an export market, just as does any large scale development of Canadian natural resources. The Canadian market, because of its size, or, in some cases, because it is not sufficiently concentrated, cannot justify large scale undertakings on an economically sound basis. And so, Canadian extractive and manufacturing industries must depend on exports to expand and, in some instances, to exist.

The importance of exports to Canadian industries is well reflected by developments in the oil, uranium and nickel industries. The present supply of crude oil in Canada surpasses the current domestic consumption. This is partly due to the fact that western oil is, in the main, unable to compete in eastern Canada with oil of foreign origin. This has necessitated curtailment of Canadian oil production, and on February 1, 1961, Mr. Hees, the Minister of Trade and Commerce, put forward what he termed "a national oil policy".[1] The purpose of this policy is to increase the usage of Canadian oil in domestic markets west of the Ottawa valley. In his words, "The growth in domestic use is predicated in particular on substituting in Ontario markets, west of the Ottawa valley, products refined from Canadian crude for these now supplied from foreign crude". The need for government intervention in this industry shows the disadvantages of geographical dispersal of population and markets within Canada's boundaries.

In the field of uranium, the effects of a contraction of exports were quite obvious, even if deplorable, in the town of Elliot Lake, Ontario. Subsequent announcement of a United Kingdom intention to purchase large quantities of this metal provided some alleviation, but the Canadian uranium industry will not be out of trouble until additional export markets are found.

On the other hand, the nickel industry contributes as one of Canada's leading export industries, and as a result, it has experienced growth and profitability.

The contrast in economic conditions between the farm implements and textiles industries is also an indication of

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[1] Hansard, February 1, 1961, Volume 105, Number 38, pp. 1640-1642.

the importance of exports in the development of Canadian manufacturing industries. The Canadian farm implements industry is a classical example of industrial growth and expansion based on foreign trade. The development of this industry was achieved through a high level of exports. The high volume of production warranted by the domestic and export markets permitted this Canadian industry to attain an enviable competitive position, both domestically and in world markets. In contrast, Canada's textile industry, unsuccessful in the export field, is well recognized as being in constant difficulties despite the tariff protection it has acquired in the domestic field.

It would appear, therefore, that in a number of large scale undertakings, the Canadian market, of itself, is not sufficiently large, or too dispersed, to provide a sound basis for an economic volume of production.

In view of the importance of export markets for the development and growth of Canadian industries, it follows that the implications of European trading arrangements and economic integration are of special significance to this country's economic future. However, developments in Europe, and their implications for Canadian export prospects must be placed in their proper perspective if a true assessment is to be achieved. One of the first steps in this direction is to establish the relative importance of individual markets and individual commodities or groups of products in Canada's current export volume.

B. Most Important Export Markets

Canadian sales abroad have a wide and varied distribution. Nevertheless, of Canada's total exports, approximately 85 per cent are absorbed by the U.S.A., the United Kingdom, EEC countries and other EFTA countries. These markets are the most significant if any immediate changes in trading patterns should occur.

A further breakdown will, however, provide a clearer insight into the relative importance of these markets. As can be seen from Table V, Canadian exports to the U.S.A. over the past four years have accounted for approximately 60 per cent of Canada's total sales abroad. During this same period of time, U.K. purchases from Canada reached a yearly total of 16 per cent of Canadian exports to the world, while EEC countries bought 8 per cent of Canada's total yearly sales abroad. Since 1957, EEC and all EFTA countries combined have purchased slightly more than 25 per cent annually of Canada's total export sales. It is clear, therefore, that these European markets are of vital importance to Canada's export trade. Of special importance, is the fact that the United Kingdom represents by far the largest individual market in Europe for Canadian products.

TABLE V

Major Export Markets for Canadian Products

Country of destination	1957		1958		1959		1960	
	$ ml.	%	$ ml.	%	$ ml.	%	$ ml.	%
U.S.A.	2,868	59	2,832	59	3,083	61	2,935	56
U.K.	737	15	776	16	786	16	915	17
EEC	402	8	422	9	314	6	436	8
EFTA (excluding U.K.)	107	2	110	3	119	2	133	3
WORLD	4,839	100	4,830	100	5,022	100	5,266	100

Source: Dominion Bureau of Statistics, Trade of Canada.

C. Major Export Commodities

A few individual commodities and groups of commodities account for approximately 80 per cent of total Canadian exports. As indicated in Table VI, these exports currently consist of agricultural products, woodpulp and lumber, newsprint, crude metals and chemicals and allied products. The United States market accounts for more than one half of these exports, whereas the United Kingdom and the EEC purchase about 15 per cent and 5 per cent respectively.

These major items represent more than 80 per cent of total Canadian exports to the United Kingdom; for the EEC this proportion is closer to 85 per cent. The importance of this group of exports in Canada's trade with the U.K. and the EEC cannot, therefore, be underrated. It is equally true, however, that the importance of these same exports to the U.K. and the EEC should not be overrated, since they represent less than 20 per cent of total Canadian sales abroad. In contrast, sales of these same major items to the U.S. represent about 45 per cent of total Canadian exports.

The United Kingdom Market

The United Kingdom is Canada's second largest export market. It purchases more than 15 per cent of total Canadian exports - mainly agricultural products and industrial raw materials.

As indicated in Table VII, the three most important

TABLE VI

Comparison of Major Canadian Exports to Selected Areas of the World ($ million)

Commodities or Groups of Commodities	1959			1960		
	U.K.	EEC	U.S.A.	U.K.	EEC	U.S.A.
Wheat	147	97	17	135	108	17
Other Agricultural Products	133	26	178	133	30	174
Animals and Animal Products	48	16	229	35	15	205
Lumber	26	2	271	52	4	270
Woodpulp	24	10	252	31	12	256
Newsprint Paper	52	-	617	60	-	631
Iron Ore	22	13	119	28	27	102
Farm Machinery and Implements	-	-	91	-	-	75
Aluminum	68	33	80	80	54	54
Copper	48	17	82	68	27	75
Nickel - Crude	37	12	114	55	32	88
Uranium	33	-	279	26	-	237
Asbestos & Products	9	20	45	9	25	54
Chemicals and Allied Products	27	22	86	34	37	92
TOTAL - Major Exports	674	268	2,460	746	371	2,330

Source: Dominion Bureau of Statistics, Trade of Canada.

TABLE VII

Breakdown of Canadian Exports to the United Kingdom
($ million)

Commodities or Groups of Commodities	1957	1958	1959	1960
Wheat	127	146	147	135
Barley	20	47	36	29
Flour of wheat	20	23	23	23
Flaxseed	22	18	18	21
Tobacco	16	14	20	21
Soya Bean, Oil Cake and Meal	15	6	14	14
Other Agricultural Products	22	29	22	25
Animals and Animal Products	21	40	48	35
Lumber	40	34	26	52
Woodpulp	29	25	24	31
Newsprint Paper	44	46	52	60
Other Wood and Wood Products	29	28	30	36
Iron Ore	24	16	22	28
Steel Billets, Ingots, Blooms	1	-	-	18
Other Iron and Iron Products	18	9	10	27
Aluminum	79	68	68	80
Copper	58	45	48	68
Nickel - Crude	39	43	37	55
Nickel - Fine	6	10	9	12
Platinum	17	15	12	15
Lead	9	7	6	8
Uranium	-	13	33	26
Other Non-ferrous Metals & Products	30	25	25	33
Asbestos and Products	8	8	9	9
Chemicals and Allied Products	28	36	27	34
Other Exports	15[a]	25[b]	20[c]	20[d]
Grand Total	737	776	786	915

Source: Dominion Bureau of Statistics, <u>Trade of Canada</u>.

a. Includes Crude Artificial Abrasives & Carbon Graphite Electrodes - $6 million.

b. Includes Crude Artificial Abrasives & Carbon Graphite Electrodes - $7 million; also Ships - $11 million.

c. Includes Crude Artificial Abrasives - $3 million; also Ships - $11 million.

d. Includes Cotton Fabrics, $3 million; Synthetic Fibres, $4 million; Fused Alumina, $3 million; and non-metallic minerals n.o.p., $3 million.

groups of commodities which Canada exports to the United Kingdom are agricultural products, non-ferrous metals and wood products. Since 1957 these items have accounted for well over 70 per cent of total Canadian sales to the U.K. Certain individual commodities are also of major importance, and for the past three years the same seven individual products have represented more than one half of total Canadian exports to the U.K. In 1960, these were as follows: wheat - $135 million; barley - $29 million; newsprint - $60 million; aluminum - $80 million; copper - $68 million; nickel - $67 million; and lumber - $52 million.

Other important Canadian exports to the U.K. include woodpulp, canned salmon and chemicals. Canadian exports of chemicals and allied products, which totalled $34 million in 1960, are of particular importance since the trend in the U.K. market has indicated growing demand for such products, and because these are products from Canada's secondary manufacturing industries.

The effect of U.K.'s participation in EFTA upon Canadian exports are not discouraging. Only two significant areas of probable losses emanate from the provisions of the EFTA Convention. Maintenance of Canadian sales of wood, wood products and paper will require a growing U.K. market capable of absorbing both Canadian and Scandinavian supplies. Expectations of growing sales of manufactured products and chemicals to this market will now be dependent on increasing Canadian competitiveness due to the loss of tariff preferences, and in some cases such as synthetic textiles and fibres, the introduction of reverse preferences.[2] However, in accordance with existing U.K. preferences for Canadian products, any set-back due to losses of these preferences will be concentrated in a sector of trade which accounts for less than 15 per cent of Canadian exports to the U.K. - mainly canned salmon, certain wood products, synthetic textiles, chemicals and other manufactured products. However, such are the short-run expectations, and it is quite likely that in the longer run these very same products will benefit from increased demand, not only in the U.K. itself, but in the EFTA market as a whole.

The implication of the U.K.'s possible membership in the EEC are obviously quite difficult to assess. It is clear, at the moment, that the U.K. will seek special arrangements, if not concessions, in its bid to join the EEC. However, a brief study of the volume and type of products which the United Kingdom imports from Canada is sufficient to indicate that no drastic change in this trading pattern will occur in the near future.

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[2] The introduction of "reverse preferences" means that not only will certain Canadian products lose their preferential tariff treatment, but in addition, they will eventually be at a tariff disadvantage vis-à-vis other EFTA products entering the U.K. market.

Of the seven major export items, accounting for more than 50 per cent of Canadian exports to the U.K., not one of these is in great danger of competition from European sources of supply. Although it is expected the U.K. will negotiate reservations on farm products presently entering that market free of duty, the imposition of tariffs on farm products would mainly affect U.K. consumer prices but would not have a direct bearing on British demand for such products. Europe cannot meet completely the U.K. requirements for farm products, and Canadian farm products should be able to compete successfully with other foreign suppliers.

The loss of tariff preference for those Canadian products enjoying such a preference is of course a very significant aspect of Britain's possible membership in the EEC. However, the following breakdown of Canadian exports to the United Kingdom indicates quite clearly that the effects of such a loss should not be overrated. In addition to the seven major Canadian commodities which constitute more than 50 per cent of Canadian exports to the U.K., and which enter that market without significant tariff preference, there is another 25 per cent of Canadian sales to the U.K. on which the preference is very small - 5 per cent or less. On a sizeable part of the remaining 25 per cent, the loss of preference should not affect drastically the flow of trade. For example, canned salmon, a fairly large individual trade item, has a preference of 5 per cent, but sells mainly on a quality basis. Canadian barley, flour and flaxseed have a 10 per cent duty preference but sell mostly according to market requirements rather than price. Really significant preferences - over 20 per cent - apply to less than 3 per cent of exports, mainly manufactured products. Of some concern, might be the loss of the 10 per cent preference for medicinal preparations and synthetic rubber, and the 20 per cent preference on building board and some paper products. These individual items above account for no more than 5 per cent of Canadian exports to the U.K.

The loss of tariff preferences may, therefore, be detrimental to some exports to the U.K., but severe deterioration should not be expected. Canada might, for instance, experience initial losses in such products as medicinal preparation, synthetic rubber, building products, some paper products and chemicals. These are the important items most likely to suffer if U.K. demand for such products remains static. On the whole, there is clear indication a decline in exports due to the loss of tariff preferences should not exceed 10 per cent, at the very most, of current Canadian sales to the U.K. Of course certain individual items, as indicated above, may suffer more than others, but such changes in trading patterns are a normal occurrence in international trade, unless introduced suddenly. And it is almost certain that any withdrawal of preference will be spread out over a period of years, providing ample opportunity for Canadian industries to adapt themselves to the new circumstances.

This maximum possible reduction of 10 per cent in Canadian exports to the U.K., would represent less than a 2 per cent decline in terms of Canada's total exports. This possible loss, however, should be viewed in the light of present economic conditions in the U.K. Post-war economic developments in the U.K. have not been as favourable as in other European countries. The failure of the British economy to achieve a sufficiently high rate of growth, and its continued balance of payments difficulties, have already resulted in government measures intended to reduce imports. And it is expected that such "belt-tightening" measures will continue to be necessary in the U.K. at least in the near future. In such circumstances, the outlook for growing Canadian exports to that market is certainly not favourable.

In the face of these recurring economic difficulties, the U.K. has come to the conclusion that it might be to its advantage to join the EEC. Britain expects that by its membership in the EEC the solution to many of its internal economic problems will be facilitated. It is expected, for example, that within the EEC, the U.K. will be able to achieve a more favourable rate of growth in industrial production, and that it will attract much of the foreign investments currently directed to EEC countries.

In the long run, membership of this highly productive and competitive island in this wide common market should produce favourable results on its rate of economic growth and on its international balance of payments position. The outlook should be for increased demand for Canadian products, and greater possibility for diversification in the types of goods which the United Kingdom will be able to afford to buy from Canada.

D. The European Economic Community

The European Economic Community is Canada's third largest and, at the moment, fastest growing export market. Table VIII shows that since 1950, Canadian exports to the EEC have more than tripled. In 1960, Canadian sales totalled $436 million compared to $117 million in 1950.

Table VIII also indicates that Canadian exports to individual EEC countries have increased very favourably since 1950, except in Belgium-Luxembourg. Even in France and Italy, where protectionist import policies have been prevalent, sales of Canadian products have more than doubled since 1950. The growth of Canadian exports to the Netherlands during the same period has been no more favourable than the increase in Canada's sales to France and Italy. And yet, the Netherlands has been considered by Canada as having more liberal trading policies than France and Italy. The increase in Canadian exports to Germany has obviously been tremendous - from $9

TABLE VIII

Canadian Exports to Countries of
the European Economic Community

($ million)

Year	Belgium Luxembourg	France	Germany	Italy	Netherlands	TOTAL
1950	66	18	9	15	9	117
1951	94	46	37	49	26	252
1952	104	48	95	53	41	341
1953	69	32	84	33	42	260
1954	55	34	87	24	40	240
1955	53	42	91	28	48	262
1956	58	53	142	38	55	346
1957	60	57	152	63	70	402
1958	70	45	202	30	75	422
1959	56	43	129	32	54	314
1960	69	73	165	66	63	436

Source: Dominion Bureau of Statistics,
<u>Trade of Canada</u>.

million in 1950 to $165 million in 1960. In part, this reflects the fact that the German economy has experienced the most rapid rate of growth of the Six, especially since 1954.

Thus, it would appear that the growth in Canadian exports to individual countries of the Six since the war, has been affected more by the rate of growth in these economies rather than by their trading policies. If the opposite were true, Canada's sales to Belgium-Luxembourg and to the Netherlands would have outpaced the growth in Canadian exports to France and Italy. This has not happened, indicating that Canadian exports to the EEC will most likely increase in accordance with the rate of economic growth and industrial expansion in the Common Market, irrespective of the overall higher rates of duty imposed by the common external tariff of the Six.

For a number of traditional Canadian export products, the Common Market is of major significance. Of Canada's total sales of wheat, 30 per cent has been purchased by countries of the Six. As indicated in Table IX,[3] Canadian exports of asbestos, synthetic rubber, pulpwood and flaxseed are also of major importance. Of Canada's total exports of the foregoing products, approximately 25 per cent is sold to the Six. Similarly, the Common Market purchases about 10 per cent of

[3] Appendix A contains five tables showing a breakdown of Canadian exports to individual EEC countries for the years 1957 to 1960.

TABLE IX

Breakdown of Canadian Exports to
the European Economic Community

Commodities or Groups of Commodities	$ million 1957	1958	1959	1960
Wheat	112	101	97	108
Flaxseed	27	18	11	12
Rapeseed	11	10	6	4
Other Agricultural Products	23	17	9	14
Animals and Animal Products	10	8	16	15
Wood and Products	22	16	12	22
Iron Ore	46	23	13	27
Aluminum	18	20	33	54
Copper	10	27	17	27
Nickel - Crude	9	13	12	32
Lead	4	5	4	4
Other Non-ferrous Metals and Products	10	7	8	11
Asbestos and Products	23	16	20	25
Chemicals and Allied Products	28	27	22	37
Other Exports	49	114	34	44
Total Exports	402	422	314	436

Source: Dominion Bureau of Statistics, Trade of Canada.

Canada's total exports of barley, iron ore, nickel, tobacco and aluminum.

Table IX further indicates that the greater portion of Canadian exports to the Community - about 80 per cent - consists of agricultural products and industrial raw materials. Six major export items account for more than 60 per cent of Canadian exports to the EEC. In 1960, these were: wheat - $108 million; aluminum - $54 million; copper - $27 million; nickel - $32 million; asbestos - $25 million, and, chemicals and allied products - $37 million.

The common EEC tariff which should eventually apply to these commodities are as follows: wheat - 20 per cent; aluminum - 10 per cent to 20 per cent; copper - zero; nickel- zero; asbestos - zero; and chemicals and allied products - zero to 34 per cent.

The 20 per cent duty on wheat is significant since both the Netherlands and Germany, the major EEC customers for Canadian wheat, have in the past levied no duty on such imports. Of even greater concern than the tariff level, however, is the likelihood that various non-tariff measures such as state trading, mixing[4] regulations, common protective marketing arrangements and minimum prices will be put into effect. Although the demand for Canadian hard wheat is strong, and is

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[4] The proportion of hard wheat to soft wheat in bread.

based on quality rather than price, millers' and consumers' preferences could be changed over time through government intervention. There is also the possibility of increased production of hard wheat within the Common Market as a result of government support, mainly in France. But, in view of the volume of Canadian wheat sold in the EEC, it is more likely that any losses, should they occur, will be felt more in respect of the rate of growth of Canadian sales of wheat in that market rather than in terms of absolute decline in volume. Such a prospect does not suggest any significant hardship for Canada, especially to the Canadian employment situation.

Except for the Benelux countries, the rate of duty on aluminum in the Six has always been high - between 10 per cent and 30 per cent. However, duty free quotas were allowed to meet individual needs. A similar pattern of quotas at reduced rates of duty from the common tariff level has also been extended as a result of negotiations amongst the Six. Thus any losses in Canadian exports of aluminum must be premised on a static European market obtaining its aluminum requirements from within. This is an unlikely development. Any effects on exports of aluminum should therefore be expected only in the long run rather than in the immediate future which, in fact, holds promise of growing demand not satiable within the boundaries of the Six. In any event, this healthy Canadian industry should certainly be able to adapt itself in the long run to whatever changes in trading patterns are in store. The significant gains in Canadian exports of aluminum to the Common Market since 1957 are not expected to be lost, but any future growth could well be at a lower rate due to possible competition from internal sources.

The zero tariff on copper, nickel and asbestos should certainly not impede Canadian exports of these products. In fact, growing demand for such products by EEC countries should favour an expansion in this area of Canadian trade.

Canadian sales of chemicals and allied products constitute an element of trade of special importance since they represent output from Canadian secondary manufacturing industries. With respect to the high common tariff on some of these products, it is significant to note that although France has had some of the highest individual tariff rates on chemicals and allied products, this same country has been by far, Canada's best EEC customer in this field for the past four years. It would appear likely, therefore, that the growth in Canadian exports of chemicals and allied products will be more dependent on the inherent qualities, competitiveness and specialization of such Canadian products, rather than on the rate of duty.

Thus for those products which make up more than 60 per cent of Canadian exports to the Common Market no drastic losses, and in many cases substantial gains should be the outcome of the implementation of the Rome Treaty. A few other individual products are of special importance, such as woodpulp, iron ore, flaxseed, rapeseed and barley. These items, together with other miscellaneous agricultural products represent approximately 15 per cent of total Canadian exports to the EEC. The position of these primary products in future trading patterns with the EEC is difficult to assess. Prospects for Canadian exports of these products will be hampered by generally higher tariffs, and since their individual volumes are not exceedingly high it is feasible some of them could be replaced by products of EEC origin. However, of these products, only barley will receive what might be termed as a restrictive tariff. The common tariff for barley will be 13 per cent. For flaxseed, rapeseed and woodpulp the rate will be zero, except on woodpulp for paper making, which will carry a 6 per cent levy. The rate of duty on iron ore has been set under the European Coal and Steel Community at from 3 per cent to 10 per cent, and since most of Canada's iron ore exports are of a type dutiable around 5 per cent, the tariff factor should not have any adverse effects.

It is in the remaining sector of Canada's exports to the EEC that more significant effects may be felt - mainly on semi-processed and manufactured items. While Canada's exports of such products to the Six may not decrease in volume, it seems quite likely some changes will occur in the types of products exported in the future. However, this group represents less than 3 per cent of Canada's total exports, and it is inconceivable, except in the case of outright import prohibition, that more than one half of these exports would be driven out of the Common Market. In such an unlikely event, Canada would stand to lose slightly more than 1 per cent of its export trade in exchange for the other benefits to be derived from the economic unification of Europe. Such an initial loss would soon be replaced by the many potential gains in other areas of trades.

It therefore appears that the gradual impact of the Common Market might require adjustments in Canada's export composition, mainly in some agricultural products such as wheat and barley and in its various small manufactured items. But the long run effects of the present European Economic Community are, by far, more advantageous to Canada's export prospects than the immediate drawbacks it might present at its inception, and Canada will surely benefit from the success of this economic undertaking.

E. Other E.F.T.A. Countries

Although the United Kingdom offers, by far, the largest market for Canadian exports in the E.F.T.A., anxieties also arise in respect of Canada's interests in other E.F.T.A. countries. Canada has a considerable stake in its exports of agricultural products, various metals and a few manufactured goods, mainly chemicals and allied products, to the other E.F.T.A. countries.

As indicated in Table X, Canadian sales to E.F.T.A. countries, excluding the United Kingdom, totalled $133 million in 1960. Of this total, Norway, Sweden and Switzerland purchased $117 million, or more than 80 per cent. Norway alone accounts for more than one half of Canadian exports to E.F.T.A. countries excluding the U.K. In addition, since 1950 sales to Norway have increased more than threefold, from $19 million to $70 million in 1960.

Table XI,[5] contains a breakdown of the major Canadian products exported to Norway, Sweden and Switzerland combined, for the past four years. These figures show that the major items which Canada has exported to these three E.F.T.A. countries have been nickel, copper, wheat and aluminum. During 1960 Canadian exports of these four individual products to Norway, Sweden and Switzerland amounted to $89 million, or more than 60 per cent of Canada's total exports to all E.F.T.A. countries excluding the United Kingdom.

The type of products involved in this major portion of Canada's sales to the E.F.T.A. countries should not be

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5 Appendix B contains three tables showing a breakdown of Canadian exports to individual E.F.T.A. countries for the years 1957 to 1960.

TABLE X

Canadian Exports to Countries of
the European Free Trade Association
($ million)

Year	Austria	Denmark	Norway	Portugal	Sweden	Switz.	U.K.	Total
1950	2	1	19	6	4	26	470	528
1951	2	6	32	5	12	25	631	713
1952	5	10	39	4	12	27	746	843
1953	5	6	37	4	5	30	665	752
1954	3	3	44	2	4	27	653	736
1955	6	3	47	2	8	26	769	861
1956	5	3	58	2	8	33	813	922
1957	7	4	56	3	12	25	737	844
1958	7	5	56	2	11	29	776	886
1959	8	5	62	3	15	26	786	905
1960	8	5	70	3	21	26	915	1048

Source: Dominion Bureau of Statistics, <u>Trade of Canada</u>.

TABLE XI

Breakdown of Canadian Exports to
Norway, Sweden and Switzerland combined

Commodities	($ million)			
	1957	1958	1959	1960
Wheat	16	25	16	17
Aluminum	3	3	6	7
Copper	13	10	11	15
Nickel	35	38	45	51
Chemicals	3	4	7	4
Other Exports	23	16	18	23
Total	93	96	103	117

Source: Dominion Bureau of Statistics, *Trade of Canada*.

affected adversely. Rather it may be expected that a growing need for these products will favour Canadian exports. Should Norway and Sweden decide to join the E.E.C., Canadian exports of copper, nickel and aluminum may well be favoured by the potential intensification of economic activity E.E.C. membership will have on these countries. The effect of such a development on Canada's wheat sales in E.F.T.A. should be allegviated by the fact that Switzerland, Canada's largest and most regular wheat customer in E.F.T.A., is not likely to join any trading unit such as E.E.C. since the political implications in E.E.C. would require the abandonment of its traditional neutral position.

Thus, for at least 60 per cent of Canada's exports to other E.F.T.A. countries no serious setback should be expected, whether or not two of the three countries involved decide to join the Common Market.

In considering the balance of Canada's exports to all E.F.T.A. countries excluding the United Kingdom, possible losses should not be given exaggerated importance. Canada's sales to many of these countries have experienced erratic fluctuations for at least the last ten years. Canadian exports totalling $10 million to Denmark in 1952, fell to $3 million in 1956 and are currently in the order of $5 million. Similarly, Portugal purchased $6 million worth of Canadian products in 1950, $2 million in 1954 and $3 million in 1960. Sweden purchased $12 million of Canada's exports in 1952, $4 million in 1954 and $21 million in 1960. Fluctuations would not, therefore, be a new element in Canada's sales to these countries. The most stable market for Canadian exports, amongst these countries, has been Switzerland - about $25 to $30 million annually since 1950. Of course, it would be ideal if all had shown rates of growth as in Austria - from $2 million in 1950 to $8 million in 1960, and Norway - from $19 million in 1950 to $70 million in 1960.

It would appear therefore that any fluctuations in Canadian exports, either upwards or downwards, will be difficult to attribute to developments in E.F.T.A. itself or to the decision of some of its members to join the E.E.C. Nevertheless it is logical to expect that losses or gains in these markets will follow the same trends as in other European markets, and will depend to a great extent on the ultimate trading arrangements between E.F.T.A. and E.E.C.

In any event Canada's potential losses or gains to that market represent only a very minimal value of total Canadian exports. Sales of nickel, copper, aluminum and wheat to Norway, Sweden and Switzerland represent more than 60 per cent of Canada's exports to all E.F.T.A. countries excluding the U.K. No serious setback is expected in this area of trade. And it would be folly to expect that new tariff arrangements either within E.F.T.A. or in E.E.C. could disrupt more than one half of the balance of Canada's sales to these six E.F.T.A. countries. In terms of Canada's total exports, this would mean a maximum loss of less than 1 per cent. Surely, in the face of such a slight risk of loss, Canada can more readily, and more beneficially, look to the possible trade expanding potentialities of this trading group in Europe.

F. Future Prospects

Potential benefits from European economic unification must be projected on the basis of past experience in similar areas of economic developments. As such, the accuracy, or the worth, of these projections may be somewhat wanting. Nevertheless, there exist some areas of economic projection which are fairly dependable. One of these areas is the parallel movements in industrialization and foreign trade. It has been shown in an earlier chapter, that increased foreign trade is a normal characteristic of the process of industrialization. Already, the growth in investments and industrial production in Europe over the past few years has been accompanied by an increase in both exports and imports. As can be seen from Table XII, the rate of growth in industrial production has been accompanied by increased levels of both exports and imports. This relationship between industrial production and foreign trade has favourably affected Canadian exports to these markets. France, Germany and Italy have experienced a faster

TABLE XII

Index of Industrial Production and Volume of Foreign Trade of EEC Countries 1953 = 100

Country	Year	Industrial Production	Imports	Exports
Belgium and Luxembourg	1954	104	110	109
	1957	119	139	133
	1958	113	137	136
	1959	117	154	154
	1960	125	174	173
France	1954	109	109	115
	1957	139	151	131
	1958	145	150	137
	1959	150	147	164
	1960	168	176	192
Germany	1954	112	123	122
	1957	146	192	188
	1958	151	205	195
	1959	162	247	222
	1960	179	294	255
Italy	1954	109	105	112
	1957	138	144	178
	1958	143	143	189
	1959	158	161	232
	1960	182	229	280
Netherlands	1954	111	125	114
	1957	127	158	136
	1958	127	149	147
	1959	139	169	165
	1960	157	193	187

Source: OEEC, General Statistics, OEEC Statistical Bulletin, No. 4, July 1961.

rate of growth in industrial production since 1954 than Belgium and the Netherlands. Similarly Canadian exports to France, Germany and Italy have increased much more rapidly than Canadian sales to Belgium and the Netherlands during the same period.

It is fair to expect that this relationship between industrial production, imports and exports will continue to be the general rule in European economic developments. Thus, it could well be that by 1975,[6] when E.E.C.'s population may have reached 180 million, and when its Gross National Product could well be $280 billion, Canadian exports to that market will total $800 million compared to the current level of slightly more than $400 million. Such a figure will be reached if the ratio of imports from Canada to E.E.C.'s G.N.P. remains the same. Of course, a rate of growth of this magnitude would most likely necessitate greater dependence on imported raw materials, with the favourable result that Canada's exports to the E.E.C. fifteen years hence could easily exceed $800 million.

One of the current drawbacks to Canada's trading position vis-a-vis western Europe, is the cost differential affecting industrial production. This has proven a disadvan-

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6 The projected figures for 1975 are based on a special study of the E.E.C. published in The Financial Post, Toronto, August 16, 1958, Volume LII, No. 32, pp. 19-22.

tage to Canadian exports competing in European markets, or competing against European products in third countries. The advent of intensified industrialization and capital investments within an economically unified Europe may be expected to narrow such cost disparities. Indeed, one of the long run purposes of the Common Market is to raise the standards of living in Europe. The accompanying increases in industrial and social costs which can be expected from such an occurrence will prove beneficial in closing the gap between cost levels in Canada and Europe, thereby extending a more competitive position to Canadian products, especially those from secondary manufacturing. This will be helpful to Canada's export prospects in Europe and in third countries, where European products are presently lower priced.

Higher industrial production and the diversification in industrial activity will increase the potential flow of manufactured products from Europe to Canada and to other world markets. Such a development should be welcomed by Canada, for many reasons. Firstly, it will permit Canada to reduce its dependence on imports of manufactured items from the U.S., thereby providing a better distribution in the composition of Canada's trade balance. Secondly, the increase in European exports of manufactured products to the world will increase Europe's stake in international trade. In turn, this will prove a strong incentive for Europe to increasingly liberalize its policies towards imports in order to continue receiving liberal treatment in its access to world markets. Thirdly, it is fair to assume that an increase in Europe's economic strength will affect that market's propensity to import, in the same manner that such a development has affected the U.S. market. U.S. represents today the largest market for the sale of Canadian manufactured products. As indicated in Table XIII, the U.S. market accounts for the major portion of Canadian exports of such manufactured products as farm machinery, manufactures of iron, copper tubing and wire, radio wireless apparatus, telegraph and telephone apparatus, electrical apparatus, chemical fertilizers and drugs and chemicals.

And so, it may be expected that as Europe reaches a world trading and economic position similar to that of the U.S., it will constitute a better market for the sale of Canadian goods from secondary manufacturing. This is of special importance to the export prospects of Canada's secondary industries, since the présent volume and composition of such Canadian sales abroad, render them uncommitted in respect of future trading developments. In view of the small volume of Canada's exports of manufactured products to Europe, any disruptions in that area of trade must be equally small. On the other hand, Canadian secondary industries, which currently have no large scale investments directed to the promotion of export sales, can be trusted to adapt their investment and

TABLE XIII

Comparison of Selected Commodities
Exported from Canada to the U.S.A.
and the World During 1960
($ million)

Commodities	U.S.A.	World
Motor Vehicle Engines	8	10
Mowing Machines and Reapers	6	6
Treshers and Combines	30	32
Farm Tractors	4	4
Adding Machines and Parts	2	4
Iron Valves	1	2
Manufactures of Iron n.o.p.	4	6
Copper Tubing	4	8
Copper Wire	3	5
Radio Wireless Apparatus	15	22
Telegraph and Telephone Apparatus	4	7
Electrical Apparatus n.o.p.	5	7
Drugs and Chemicals n.o.p.	27	48
Nickel - Fine	81	142
Dental, Surgical, Hospital Equipment	2	3
Scientific Apparatus	4	7
TOTAL	200*	313**

Source: Dominion Bureau of Statistics, _Trade of Canada_.

* Represents more than 7 per cent of total Canadian exports to the U.S.

** Represents more than 5 per cent of total Canadian exports.

development programmes to meet any growing export sales opportunities in the future. Unlike other countries, this will not entail the abandonment of existing production facilities, but only the development of new ones in accordance with opportunities in foreign markets.

Those in favour of a static pattern of trade express the fear that Canada will lose its agricultural markets in Europe. It is agreed that Europe's need for agricultural products will grow. However, the fear is that restrictive policies will prevent such increasing needs from being fulfilled by foreign countries. At present, agriculture is both a political and economic problem in Europe, with "too many farmers on too many small farms".[7] Approximately one quarter of E.E.C.'s work force is currently engaged in agricultural production, compared to about 8 per cent in the U.S.A. Moreover, European farms are generally small, family-owned enterprises. More than two-thirds of farms in the Common Market - compared with about one-quarter in the U.S. - are less than 25 acres in size. The Common Market Commission's plan for a common agricultural policy recognizes that the Six must solve their basic agricultural problem - too many small farms, too many farmers, too much inefficiency, too much protectionism and

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[7] The Chase Manhattan Bank, "A European Farm Policy", Western Europe, issued bi-monthly by the Economic Research Department, No. 9, August-September 1960, New York.

too many government controls. As a high cost producer of food the E.E.C. realizes the long run economic dividends of gradually shifting resources from some lines of agriculture to industrial production. Such a shift in the composition of the labour force from agriculture to industry, will be facilitated by the increased industrial economic activity in Europe following the intensified capital investments in industry which has already begun. A shift of this type is a normal effect of industrial growth and there is no reason why E.E.C.'s agricultural sector should be an exception.[8]

These long run developments in Europe's agricultural production will relieve agricultural policy-makers from present political pressures in this field. With fewer people directly engaged in agriculture, policies may be expected to be formulated more on the basis of economic considerations rather than political implications. The increases in imports of foodstuff which economic considerations will suggest, will, moreover, be supported by consumers who expect the Common Market to bring lower food prices; by the importing and food processing industries of Belgium and Holland, whose influence has, up to now, been confined to the Benelux; and by an increasing number of industrialists who realize that Europe must liberalize its

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[8] Richard H. Holton and David C. Smith, "Canadian Economic Growth in the Early 1960's, The Business Quarterly, Vol. XXVI, No. 2, Summer 1961, School of Business Administration, University of Western Ontario, London.

agricultural import policies in order to export more industrial goods. Thus, with the relative decline in importance of agricultural production in the E.E.C. as a result of intensified industrialization, the growing demand for foodstuffs may be expected to favour foreign suppliers, including Canada.

It seems obvious, from the foregoing, that providing the E.E.C. achieves its goals concerning such factors as industrial production, income growth and higher standards of living, Canada stands to gain much more in the long run compared to whatever losses or disruptions may affect its trade initially. The future potentialities of a united Europe favour not only the growth in Canada's exports of agricultural products and industrial raw materials, but also will provide opportunities for the development of a sound export specialization in secondary manufacturing products. In effect, Canada must look hopefully towards the successful attainment of the economic and political goals of the European Economic Community.

CONCLUSION

Canada's trade with Europe has been shown to consist mainly of agricultural products and industrial raw materials with manufactured items playing a very minor role. The immediate outlook, resulting from trading and other economic arrangements in Western Europe, is for this trading pattern to continue without any significant loss or deterioration in any one area. It is illogical to foresee a decline in Canadian exports of industrial raw materials to Western Europe in the face of increasing needs for such products as a result of growing industrial production. On the other hand it is inconceivable that Europe's agricultural requirements will subside suddenly, just as it is inconceivable that foodstuffs, such as wheat, which the U.K., Germany and Benelux purchase in large volume from Canada, can be replaced by EEC or EFTA production in the near future.

In the field of manufactured products, Canadian exports to Europe have been low in volume, high in prices and quality. They have had to surmount existing high tariff barriers, and should not suffer from the new tariff rates adopted by EEC. Moreover, Canadian manufactured products have been initiated to compete against the preferential treatment extended to intra-European trade through OEEC and EPU, at least until 1958, so that internal trading preferences inherent in EEC and EFTA should not dislocate this trade.

It is mainly in the long run that significant positive effects upon the pattern of Canadian exports to Europe may be expected.

Just as the unifying trading and economic characteristics of the OEEC resulted in activating industrial production in Europe, so too the integration aspect of the EEC is expected to have similar results on the industrial growth of its members. In turn, the parallel movements between industrial production and foreign trade, which have been shown as empirically true, should also hold for future trading prospects with these markets. Thus it may be expected that long run growth in industrial production within these markets will be accompanied by greater import requirements.

A successful European Economic Community implies the gradual formation of an integrated market whose benefits will consist of an increase in economic activity, a growth in industrialization and investment, and a higher level of income. A united and growing population forming a single large market, with eventual income growth creating a higher level of demand for all goods, logically means more, rather than less, trade. Thus any tendency to replace Canadian goods by European ones will diminish as the market grows progressively. This would not obviate any tendency of possible reductions in imports of particular Canadian goods, but should enhance the possibility of increasing and diversifying overall Canadian exports to that market.

Of special significance is the potentiality for increased demand in fully manufactured products. It is in this area of trade where Canada must ultimately seek its future exports. A continuation of present trends in the predominance of agricultural and raw materials exports will prove disadvantageous to the future development of the Canadian economy. Increasingly more products will have to be processed domestically prior to export if Canada is to sustain an adequate level of employment. The Common Market, as it grows in economic strength and diversification, will undoubtedly provide greater opportunities for Canadian secondary manufacturing to enter the export field. Of course, Canada's secondary industries will have to adapt themselves to new demands emanating from Europe, but the minor role these industries currently have in Canadian exports to Europe, place them in a very good position to meet the changing demands of future trade prospects.

The evolution of Europe into an economic unit comparable to the U.S.A. will not only provide a welcome complementarity to Canada's present trading dependence vis-a-vis the U.S., but it will also be beneficial to Canada's export prospects to third countries. The increased European demand for the products of foreign countries, Europe's potential role in foreign capital assistance and investments, will provide more countries with the means whereby they can purchase Canadian goods in greater quantities and variety. Thus the effects of the Common Market upon Canadian exports may not solely be reflected in an increase in sales to that market, but also in expanded purchases by countries who presently must restrict their imports due to a lack of foreign exchange or low standards of living.

Given a stronger and more economically viable Europe, it will participate more actively in the field of foreign investments, and will itself attract investments from abroad. The benefits to be gained from an increasing level of foreign investments in Europe will go further than its contribution to industrialization and income growth. Foreign investments will, in fact, hasten the development of a large economic area comparable to any other in the world. And eventually Europe will become a strong creditor area capable of lending important capital assistance towards the development of under-developed countries.

The normal process of economic growth should permit Europe to enlarge its scale of exports, and it may be expected that European investments in the Canadian market will grow. A greater interest in foreign trade combined with a pattern of cross-investments will, no doubt, promote the creation of supporting and complementary industries in each area, and will give rise to unwritten and self-enlightened trading arrangements beneficial to both EEC and Canada.

It can therefore be concluded that the gradual impact of the Common Market will require adjustments in Canada's exports, mainly in manufactured products. But the long run effects of present European trading and economic arrangements constitute, by far, the most promising developments for the export prospects of Canadian secondary manufacturing.

Despite the initial drawbacks, which have yet to show themselves, Canada must meet the challenge of future trading patterns since therein lies the feasibility of growing out of its position as a "hewer of wood and drawer of water" for the American colossus.

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APPENDIX A

TABLE XIV

Breakdown of Canadian Exports
to Belgium and Luxembourg
($ million)

Commodities or Groups of Commodities	Year 1957	1958	1959	1960
Wheat	23	23	19	19
Flaxseed	4	2	2	2
Other Agricultural Products	3	3	1	1
Animals and Animal Products	1	-	3	2
Wood, Wood Products and Paper	1	2	1	2
Iron Ore	2	-	2	3
Aluminum	1	4	4	6
Copper	-	1	2	3
Lead	2	3	2	2
Nickel	-	1	6	11
Other Non-ferrous Metals and Products	2	1	2	2
Asbestos and Products	4	2	4	6
Chemicals and Allied Products	2	1	1	2
Other Products	15*	27**	7	8
Total Exports	60	70	56	69

Source: Dominion Bureau of Statistics, _Trade of Canada_

* Includes Aircraft - $8.5 million
** Includes Aircraft - $20 million

APPENDIX A

TABLE XV

Breakdown of Canadian Exports
to the Netherlands
($ million)

Commodities or Groups of Commodities	Year 1957	1958	1959	1960
Wheat	24	29	16	17
Rape Seed	2	5	1	-
Soya Bean Oil	1	2	-	-
Flax Seed	10	7	3	5
Other Agricultural Products	4	4	1	3
Animals and Animal Products	3	3	4	4
Wood, Wood Products and Paper	3	2	2	2
Iron Ore	7	7	6	8
Aluminum	2	-	1	1
Copper	-	5	2	4
Other Non-ferrous Metals and Products	2	2	3	2
Asbestos and Products	2	2	2	3
Chemicals and Allied Products	3	4	5	7
Other Exports	7	3	8	7
Total Exports	70	75	54	63

Source: Dominion Bureau of Statistics, *Trade of Canada*.

APPENDIX A

TABLE XVI

Breakdown of Canadian Exports to France
($ million)

Commodities or Groups of Commodities	Year 1957	1958	1959	1960
Wheat	6	-	4	13
Flaxseed	6	7	3	3
Other Agricultural Products	1	1	-	2
Animals and Animal Products	1	-	1	1
Woodpulp	6	3	2	4
Newsprint Paper	3	2	1	1
Other Wood, Wood Products and Paper	1	1	-	1
Iron Ore	2	1	-	1
Aluminum	1	2	9	4
Copper	7	10	6	8
Nickel	-	-	1	7
Other Non-ferrous Metals and Products	1	-	-	1
Asbestos and Products	7	5	5	5
Chemicals and Allied Products	11	11	8	17
Other Exports	4	2	3	5
Total Exports	57	45	43	73

Source: Dominion Bureau of Statistics, <u>Trade of Canada</u>.

APPENDIX A

TABLE XVII

Breakdown of Canadian Exports
to Italy
($ million)

Commodities or Groups of Commodities	Year 1957	1958	1959	1960
Wheat	6	2	6	19
Flaxseed	3	-	-	-
Rape Seed	6	2	5	4
Other Agricultural Products	-	1	1	1
Animals and Animal Products	2	2	3	3
Woodpulp	2	2	2	3
Other Wood, Wood Products and Paper	2	1	1	3
Iron Ore	18	4	-	6
Aluminum	5	1	4	9
Copper	1	3	1	2
Nickel	3	4	1	5
Other Non-ferrous Metals and Products	2	1	1	1
Asbestos and Products	3	1	1	2
Chemicals and Allied Products	5	3	3	4
Other Exports	5	3	3	4
Total Exports	63	30	32	66

Source: Dominion Bureau of Statistics, Trade of Canada.

APPENDIX A

TABLE XVIII

Breakdown of Canadian Exports
to Germany
($ million)

Commodities or Groups of Commodities	Year 1957	1958	1959	1960
Wheat	53	47	52	40
Rye	1	1	-	-
Barley	7	1	1	3
Rape Seed	3	3	-	-
Tobacco	1	1	1	1
Flaxseed	4	2	3	2
Other Agricultural Products	5	3	4	3
Animals and Animal Products	3	3	5	5
Woodpulp	2	2	3	5
Other Wood, Wood Products and Paper	2	1	-	1
Iron Ore	17	11	5	9
Aluminum	9	13	15	34
Copper	2	8	6	10
Lead	2	2	2	2
Nickel	6	8	4	9
Other Non-ferrous Metals and Products	3	3	2	5
Asbestos and Products	7	6	8	9
Chemicals and Allied Products	7	8	5	7
Other Exports	18(a)	79(b)	13(c)	20(d
Total Exports	152	202	129	165

Source: Dominion Bureau of Statistics, Trade of Canada.

(a) Includes Aircrafts and parts, $11 million.
(b) Includes Aircraft engines and parts, $5 million; and Aircraft and parts, $67 million.
(c) Includes Aircraft engines and parts, $4 million; and non-metallic minerals, $2 million.
(4) Includes Aircraft engines and parts, $6 million; steel sheets and strips, $2 million; non-metallic minerals, $4 million; and bookkeeping, calculating machines and parts, $3 million.

APPENDIX B

TABLE XIX

Canadian Exports to Norway
($ million)

Commodities	Year			
	1957	1958	1959	1960
Wheat	4	5	5	7
Flaxseed	2	2	-	-
Copper	8	7	9	10
Nickel	33	36	40	45
Non-ferrous Ores	5	1	-	-
Chemicals and Allied Products	1	1	3	2
Other Exports	3	4	5	6
Total Exports	56	56	62	70

Source: Dominion Bureau of Statistics, *Trade of Canada*.

APPENDIX B

TABLE XX

Canadian Exports to Sweden
($ million)

Commodities	Year			
	1957	1958	1959	1960
Aluminum	2	2	2	3
Copper	2	-	-	1
Nickel	2	2	5	6
Chemicals and Allied Products	1	2	2	1
Other Exports	5	5	6	10*
Total Exports	12	11	15	21

Source: Dominion Bureau of Statistics, <u>Trade of Canada</u>.

* Includes, Radio and Wireless Apparatus, $2 million.

APPENDIX B

TABLE XXI

Canadian Exports to Switzerland
($ million)

Commodities	Year			
	1957	1958	1959	1960
Wheat	12	20	11	10
Flaxseed	1	-	-	-
Barley	-	-	1	1
Synthetic Fibres	-	-	1	1
Aluminum	1	1	4	4
Copper	3	3	2	4
Asbestos and Products	1	1	1	1
Chemicals and Allied Products	1	1	2	1
Other Exports	6	3	4	4
Total Exports	25	29	26	26

Source: Dominion Bureau of Statistics, Trade of Canada.