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*Comments on present***SWISS ECONOMIC PROBLEMS****by***MARCEL HEIMO***Economic Counsellor at the Swiss Embassy**(Continuation from issue 9th February)***III. The integration problem.**

Inflation is an immediate danger. Accordingly, countermeasures are an immediate necessity. But the crucial issue before Switzerland is the integration problem. With the British demand to become a full Member of the European Economic Community and the beginning of the negotiations in Brussels, it has entered its acute phase. It would take too long to present the detailed history of European integration and the part played in this by Switzerland. Some of you may be familiar with at least the overall picture. So I will go straight on to what I consider the hard core of the problem confronting Switzerland: Neutrality. Many times our country has been faced with a situation where it has had to decide between the defence and maintenance of what is considered its most valuable and precious right and tradition, and the relinquishment of neutrality. There are many signs that such a choice may shortly be imposed on the Swiss people and that we shall have to bear the political as well as economic implications of our choice. The extreme importance of what is at stake requires that the matter be most seriously considered.

EEC : its economic and political significance.

First of all, what kind of "Europe" — this term is a many-sided one — is in the making? The EEC is at present a Customs Union in the course of development. Its logical evolution can only lead to a full economic union and, ultimately, to a political entity in the form of either a federation of States or a federal State. This process of economic and political unification will take time, undoubtedly.

For the present, the Common Market has accomplished but a few steps towards its ultimate goal. The main ones are three successive "internal" tariff reductions, which have lowered protection between the member countries by 30 to 40%, and one move towards the common external tariff. Some decisions have been taken with a view to harmonizing certain aspects of commercial and economic policies. Many studies have been undertaken of the problems ahead. Some of them have been completed. In the field of agriculture a set-back has occurred. The Six have been as yet unable to agree — as was prescribed in the Rome Treaty — on certain elements of their proposed common policy. This prevented them at the end of last year from passing to the second stage of the realization of the Common Market. In the political field, principles have been adopted and proposals are being examined which, if accepted, would tend to create a "European Union" establishing a permanent framework for regular discussions between Member Governments on an "intergovernmental" — as opposed to a "supra-national" — basis.

One might think that all this is not very impressive. I believe, on the contrary, that it is, considering the difficulties which co-operation normally encounters in international relations. In fact, the timing prescribed by the Rome Treaty has been respected and even accelerated in some sectors. The sole exception is agricultural policy, a sector, as everybody knew, especially tricky and difficult. As important as, or even more important than, the implementation of the Rome Treaty is the flurry of meetings, discussions, innovations and mergers which are taking place in Europe. They are not confined to economic life: they are making their impact felt in numerous ways in many different domains. Integration has taken root in business practices and has thus become an important aspect and factor of the daily life of the Member countries of the EEC.

But my concern tonight is not so much the actual achievements of the Six as the economic and political implications for a Member Country as seen from a Swiss point of view.

A. First, the economic implications.

These can be discovered by reading Articles 2 and 3 of the Rome Treaty:

Article 2: It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States.

Article 3: For the purposes set out in the preceding Article, the activities of the Community shall include, under the conditions and with the timing provided for in this Treaty:

- (a) the elimination, as between Member States, of customs duties and of quantitative restrictions in regard to the importation and exportation of goods, as well as of all other measures with equivalent effect;
- (b) the establishment of a common customs tariff and "a common commercial policy towards third countries";
- (c) the abolition, as between Member States, of the obstacles to the free movement of persons, services and capital;
- (d) the inauguration of a common agricultural policy;
- (e) the inauguration of a common transport policy;
- (f) the establishment of a system ensuring that competition shall not be distorted in the Common Market;

(g) the application of procedures which shall make it possible to co-ordinate the economic policies of Member States and to remedy disequilibria in their balances of payments ;

(h) the approximation of their respective municipal law to the extent necessary for the functioning of the Common Market ;

(i) the creation of a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living ;

(j) the establishment of a European Investment Bank intended to facilitate the economic expansion of the Community through the creation of new resources ; and

(k) the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing jointly their effort towards economic and social development.

As you can see, those are mainly economic obligations to be implemented gradually as the Community progresses through the transition period — three stages of four years each — towards the final period of the Common Market. The fact that they are economic undertakings does not make them less important, as I will show by describing their main characteristics :

1. They affect sectors which are vital components of the life of the State and its people, such as :

(a) external trade policy, from the point of view of tariff as well as commercial policy,

(b) agricultural policy,

(c) social policy,

(d) movements of persons, services and capital, esp. labour movements and right of establishment,

(e) transport policy,

(f) economic and monetary policies, etc.

2. The obligations, like the Treaty itself, are irreversible.

3. The details of their contents vary. Some of them are definite obligations. Others are in the nature of objectives and the means of achieving them have still to be decided upon.

4. As the transitional period continues, the voting system under which those decisions have to be taken becomes more supra-national, in the sense that from an intergovernmental procedure characterized by the rule of unanimity it is evolving into a supra-national governmental procedure (as distinct from supra-nationalism of the community type), characterized either by a simple or by some weighted or qualified majority.

In other words, the signing of the Treaty of Rome implies definite surrenders of sovereignty. That in practice and up to now the national Governments have been and still are consulted at every stage of policy formulation, and that disputes between Member States arising out of the Treaty or its application can be decided by a Court of Justice does not alter or diminish the validity of this fact, especially if one looks at it from a long period point of view. All international agreements entail a

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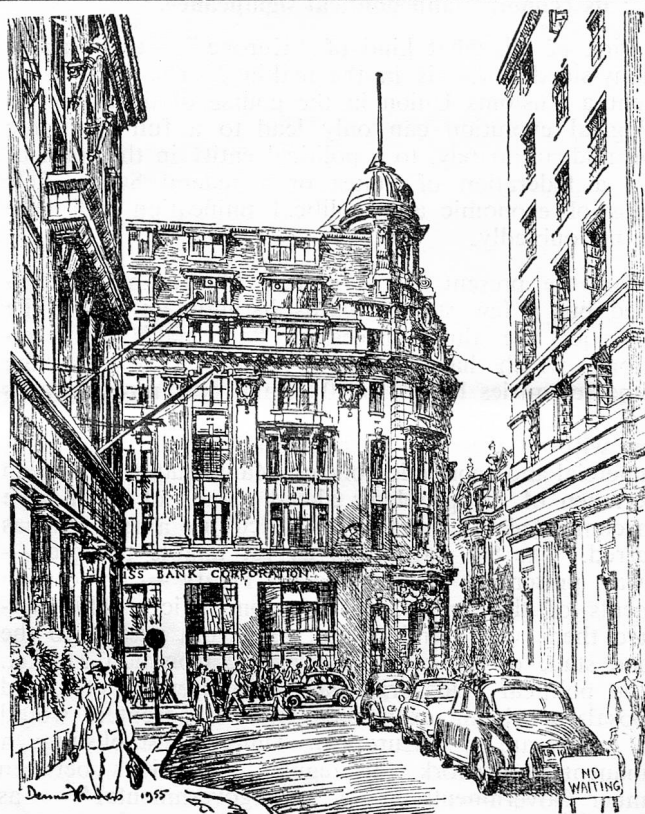
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diminution of sovereignty in the sense that parties to them are bound to fulfil the obligations they have thereby contracted. But those who sign them have every opportunity of knowing the precise conditions and limits, in substance or in time, of their undertakings. The infringement of sovereignty that goes with the Treaty of Rome is of a different order. It is only partly composed of precise obligations. But it is largely or even mainly an outline of objectives which leaves the actual policies to be formulated later. This will be done by a voting system which could compel a Member country to carry out decisions which are detrimental to its national interest and to which it is itself opposed. You will agree that this is a far-reaching commitment and that even if its subject matter is mainly economic, it does extend far into the realm of politics.

B. Second, the political implications.

If one does except perhaps two or three "considerants" of the Preamble to the Rome Treaty, such as "Determined to establish the foundations of an even closer union among the European peoples", or "Resolved to strengthen the safeguards of peace and liberty by establishing this combination of resources, and calling upon the other peoples of Europe who share their ideal to join in their efforts",

no article in the Agreement has a direct political bearing. Some have deduced from the absence of open political commitments that the Treaty is a purely economic instrument. This opinion has received, for reasons I will not enter into, larger credit in this country than anywhere else. My contention is that the Treaty is so engrained with politics that it is, to say the least, an economic instrument at the service of political aims. Here are my reasons:

1. Considered in its historical perspective, the Rome Treaty is a step along the road to political unity, which has been preceded by many other steps, such as:

- the creation of the *Council of Europe* in Strassbourg in 1949 after leading Europeans such as Monet, Spaak, de Gasperi, etc., had called for the economic and *political* integration of Western Europe;
- the establishment of the *Coal and Steel Community* in 1952, following a proposal in 1950 by Robert Schumann, then French Minister for Foreign Affairs, whose main aim was to render impossible any new war between France and Germany by fostering integration in particularly sensitive sectors; by the way, the Preamble of the Treaty establishing the Coal and Steel Community contains distinctly political objectives;
- the draft Treaty of the *European Defence Community* which was rejected by its sponsor, France;
- by the draft constitution of a *European Political Community* based on an indissoluble union of States, from which the Economic Community was to be derived;

— the setting up of the *Western European Union*, to associate Britain with the Six in the control of German rearmament, after the EDC was rejected.

The movement toward European Unity was freed, momentarily at least, from the defence and political

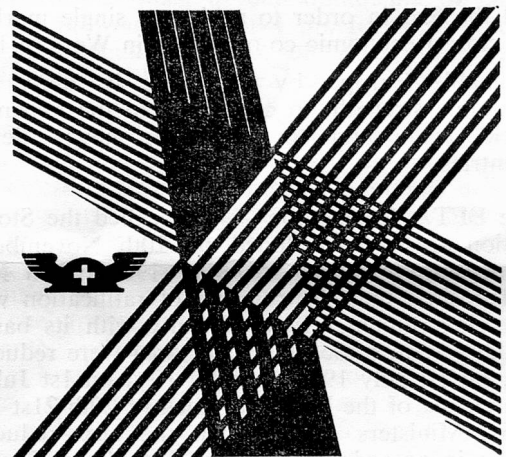
issues by the rejection of the European Defence Community and the European Political Community. Their leaders then decided, for obvious tactical reasons, not to attack directly for the time being on the political front. The "relance" of European integration was decided upon at the Messina meeting of the Six in June 1955. The communiqué issued at the end of this meeting stated that "The next phase in the building of a United Europe must lie in the economic field". To all intents and purposes, the creation of the EEC was a political move camouflaged by economic garments.

2. Because of the importance of the subjects with which the Rome Treaty deals, and the governmental supranationalist character of the procedures by which decisions are taken, it goes far beyond the economic sphere it formally covers.
3. The growth of regular consultation between the heads of States or of Governments has led the Six to adopt, on 18th July 1961, a solemn declaration — called the "Bonn Declaration" — whereby they announced their intention to hold periodic meetings with a view to reaching common attitudes on political issues and decided that a Committee should study ways and means of giving "the unity of their peoples a statutory character". This Committee, named after its Chairman the "Fouchet Committee", has now formulated precise proposals for the formal establishment of a permanent European political Union amongst them which are considered as the culmination of the

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activities of the EEC in the political field. At least some of the Six refuse to admit Britain to the deliberations of the Committee or to agree to her participation in the formalised political union until the negotiations for her entry into the Common Market have been completed. This demonstrates the links which exist between the Treaty of Rome and what can be considered as its direct political superstructure.

Enough has been said, I think, to convince even the most sceptical that the Rome Treaty is an economic instrument to achieve political objectives.

This conclusion has been recently confirmed by Mr. Hallstein, who, as you know, is the President of the Commission of the Community, in a speech made in Zurich. The Swiss authorities have been given to understand that, the Common Market being a political construction, the prerequisite of Switzerland's participation would be a change in her present political status, an adaptation of her political objectives to those of the Six. Although this was expressed in diplomatic terms, the demand was no less clear. The pre-condition of Switzerland's association to the EEC seems to be, to Mr. Hallstein's way of thinking, the giving up of her neutrality. Mind you, this is not the personal opinion of Mr. Hallstein only, but also of many personalities in France and in the United States.

2. The Stockholm Convention and the activities of EFTA

Now I must revert to another aspect of this long and complicated story. You will remember that after the failure of the Maudling Committee negotiations to establish a free trade area between the Six and other Members of the O.E.E.C., seven countries — amongst them Switzerland and the United Kingdom — decided to establish a European Free Trade Association. Its general objective was a threefold one:

- (a) by reduction of tariffs, to achieve free trade in industrial goods between the Seven countries and to enable their trade in agricultural and marine products to expand;
- (b) to bring about an accommodation between the Seven and the Six, in order to achieve a single market and the closest economic co-operation in Western Europe;
- (c) to enable Europe, by preserving its unity and its economic strength, to contribute to the expansion of world trade and to assist the newly developed countries.

The EFTA Convention — also called the Stockholm Convention — was concluded on 20th November 1959 and came into force on 3rd May 1960, when Member States deposited their instruments of ratification with the Swedish Government. In conformity with its basic provisions, duties on trade within the area were reduced first by 20% on 1st July 1960, then by 10% on 1st July 1961. At the meeting of the EFTA Council of 20th-21st November 1961, Ministers decided that the next reduction of 10%, due in accordance with the Stockholm Convention to take place on 1st July 1963, should be advanced to 1962. This decision will be implemented by Denmark, Portugal, Sweden, Switzerland and the United Kingdom on 1st March 1962, and by Austria and Norway not later than 1st September 1962. In view of these results, one can say that the Association has fared well and has remained, to use the expression of one of our Ministers, "within call" of the Six, at least where tariff reductions are concerned.

With regard to the implementation of the second fundamental objective — accommodation between the Seven and the Six — the decisions embodied in the Communiqué published at the end of the Ministerial Meeting of the EFTA Council which was held in London on 27th-28th June 1961, are of paramount importance:

"Ministers considered whether their common objective — a single European market embracing all the Members of EFTA — could be achieved by way of negotiation for membership of, or association with the European Economic Community. They concluded that it was premature to judge whether this was possible or was likely to be successful; they decided to re-examine the question at their next meeting.

Ministers agreed that if such a course should then appear possible, the Members of EFTA should co-ordinate their actions and remain united throughout the negotiations. Ministers resolved that the European Free Trade Association, the obligations created by the Convention between the Members, and the momentum towards integration within the Association, would be maintained at least until satisfactory arrangements have been worked out in negotiations to meet the various legitimate interests of all Members of EFTA, and thus enable them all to participate from the same date in an integrated European market. They agreed that a partial solution which created new economic division within Western Europe could not in any circumstances be regarded as satisfactory."

This statement is called the "London pledge". It has been as yet fully respected.

On July 31st, 1961, Mr. Macmillan announced in the House of Commons that:

"After long and earnest consideration, Her Majesty's Government have come to the conclusion that it would be right for Britain to make a formal application under Article 237 of the Treaty for negotiations with a view to joining the Community if satisfactory arrangements can be made to meet the special needs of the United Kingdom, of the Commonwealth and of the European Free Trade Association". On the same date a declaration was issued in Geneva whereby:

"EFTA Governments consider that the decision of the United Kingdom Government to take the initiative announced by the Prime Minister in the House of Commons this afternoon, which was followed by a similar statement of the Danish Government, provides an opportunity to find an appropriate solution for all EFTA countries and thus to promote the solidarity and cohesion of Europe. In reaching this conclusion, the Members of EFTA reaffirmed the decisions recorded in the London Communiqué.

"The Members of EFTA consider that it is the duty of all concerned not to miss this new opportunity. EFTA, for its part, will, on the lines set out in the London Communiqué, do everything in its power to seize it. All Member States of EFTA declare their intention to examine with the European Economic Community the ways and means by which all Members of EFTA could take part together in a single market embracing some 300 million people."

(To be continued.)