MR. SANDERSON: Our speaker today, Mr. Hirschman of the Federal Reserve Board, is Chief of the Western European Section of the Division of Research and Statistics. He is probably well known to most of you as one of the most brilliant analysists in this field. He is the author of the book on "National Power and the Structure of Foreign Trade," which I had occasion to examine and again find quite topical. He is the author of numerous articles in his field and a regular contributor to a very useful publication of the Federal Reserve Board called "Review of Foreign Developments."

Our topic today is "Approaches to Multilateralism and European Integration."

MR. HIRSCHMAN:

Multilateralism defined

There is no need for me to restate here the advantages of multilateralism and the drawbacks of bilateralism. It really is obvious that the greatest advantages from world trade are realized when every country can buy in the cheapest market. To state this simple truth means to affirm the principle of multilateralism. For, when every importer in every country is free to buy wherever he chooses there is only a small probability that the purchases of country A in country B will be just equal to the purchases of B in A. It could happen and if it did nobody would object to the bilateral balance between A and B. More likely, however, each country, even when in overall balance, will have deficits in some directions and surpluses in others. The resulting pattern of trade is called a multilateral one and we generally designate by multilateralism the conditions in international trade and finance that make such a pattern possible.

Multilateralism, thus, is not identical with free trade although you will often hear that one of the goals of our foreign economic policy is the reestablishment of a "free, multilateral trading system." Free trade requires the absence of all

barriers to trade whether they be tariffs, quotas, or exchange controls. A multilateral trading system, on the other hand, exists when the proceeds of exports (and, let us add, of foreign gifts or loans) do not have to be spent in the country which took the exports or which granted the loan, but may be used for procuring imports from anywhere in the world. Under this, possibly somewhat narrow definition of our concept, multilateralism would seem to be compatible not only with tariffs, but with certain types of exchange controls and quantitative restrictions. Thus a multilateral trading system does not necessarily conflict with administrative measures to keep total spending of foreign exchange within the limits of total foreign exchange receipts or with the imposition of global quotas, i.e. quantitative ceilings on commodity imports that do not specify the countries of origin where the commodities have to be bought.

In the usual broad sense, multilateralism is defined as a system under which traders can buy wherever they want and whatever they want to buy. In the more narrow sense, which I have elaborated here, multilateralism might be defined as a system in which traders can use wherever they wish those amounts of foreign exchange and of import licenses that are being made available to them. This narrower definition is useful because it permits one to perceive clearly the main conditions of multilateral trade, i.e. the convertibility of currencies and the absence of bilateral quotas. Actually, however, multilateralism has never taken this restricted and theoretically pure form. We have either had bilateralism or multilateralism in its broad sense. The simple reason for this is that foreign exchange difficulties invariably take the form of scarcities of particular foreign currencies, and this has resulted in restrictions being applied to those particular foreign currencies and, therefore, inconvertibility and bilateralism.

The last time we saw multilateralism

Before we look into the conditions and the methods for reestablishing a multilateral trading system I wish

to go back a little bit in history and tell you how matters stood "the last time we saw multilateralism", For having immensely sharpened our vision in this respect we are heavily indebted to the economic research work of the League of Nations and in particular to Folke Hilgerdt, now with the United Nations, 1/ By grouping the myriad data on world trade into a few significant groups, Mr. Hilgerdt has shown how a delicate mechanism of world-wide settlement of trade balances had grown up from 1860 to the nineteen twenties. I wish to retain in particular two lessons suggested by the fascinating material prepared by him.

It is often said that before the war the United States import surplus with the tropical areas permitted Western Europe to capture dollars through an export surplus with these areas and that Western Europe was in this way enabled to settle its deficit with us. One glance at the tables prepared by Mr. Hilgerdt shows that this is so simplified as a model of what was actually going on as to be seriously misleading. For instance, although the U.K. did have a small export surplus with the tropical countries in 1928 this is not true for the other European countries. The important export surpluses which enabled these countries to settle their overseas deficits were, for Germany, an export surplus with the Western European Continental countries and, for the latter, an export surplus with the United Kingdom. Finally, a most important link in the whole system of multilateral settlements was the interest and dividends receipts accruing to the U.K. as a result of its past foreign investments, which permitted the U.K. to have an import surplus with all its trading partners except the tropics. The U.K.'s import surpluses with the Continental countries of Western Europe permitted these countries to settle an important part of their import surpluses with the overseas countries and with Germany. Germany in turn was

1/ See in particular, League of Nations, The Network of World Trade, and Folke Hilgerdt, "The Case for Multilateral Trade" - American Economic Review (Supplement March 1943) p. 393 - 407.

enabled to settle its overseas deficits by its export surpluses with Western Europe and the U.K. This sketch of some of the essential elements in the multilateral settlement mechanism of the interwar period is sufficient to show that the mechanism is virtually beyond repair. This is the first lesson. Britain's overseas investment and shipping income probably will never again enable it to sustain an import surplus of the prewar magnitude; consequently the Western European countries and, in turn, Germany will have to look in other directions for a balance in their international accounts.

This should not, however, lead us to conclude that there is no future in the multilateral trading system. To reach this conclusion would be equivalent to the popular fallacy of confusing the principle of the international division of labor with one particular manifestation of this principle, i.e. the division of labor between industrial countries on the one hand and agricultural and raw material producing countries on the other.1/ The very studies of Hilgerdt -- and this is the second lesson I wish to draw from his work -- show us that the multilateral pattern never stood still. The U.S. surplus with South East Asia, of which so much is being made in current literature, became important only in the twenties. Similarly, the U.K. completely changed its pattern of trade from the eighteen sixties to the years just before the first World War: In the course of this 50-year period, a deficit with Europe and with the United States replaced a deficit with Asia, Africa, and Latin America.

This variability in the pattern of multilateral settlement should give us confidence that the impossibility of recreating the particular pattern of multilateral settlement, which prevailed in the inter-war period, does not carry with it the end of multilateralism as such. I should also like to conclude from this that it is more important to concentrate our attention on the basic prerequisites

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1/ See A. O. Hirschman, "The Commodity Structure of World Trade" Quarterly Journal of Economics, August 1943, pp. 565 - 595.

of any multilateral trading system than to construct, and to aim at, any specific, "ideal" system of multilateral settlement with every country fitted into a neatly balanced "trade matrix".

The emergence of bilateralism

There is perhaps no real need to pass in review the reason for the decay of the multilateral trading system in the thirties. It has often been told how, in the course of the Great Depression, France established import quotas and Central Europe exchange clearings and how these devices multiplied and spread to many countries during the thirties. 1/ Nevertheless, the essential conditions for a regeneration of a multilateral system remained in existence until the outbreak of World War II: The pound sterling and the currencies of France, the Low and Scandinavian countries remained convertible. This state of affairs was terminated by the outbreak of the war when comprehensive exchange licensing was instituted everywhere in Europe.

At the end of the war, the trade of the European countries among themselves and with the outside world was resumed under a more prevasively bilateral system than ever before. Here again the reasons are well known: The devastations of war and the general depletion of economic wealth required strict husbanding of foreign exchange resources; hard currencies were particularly sought after since they permitted the purchase of essential food and raw materials and all countries were very reluctant to part with these hard currencies in settlement of soft-currency deficits; foreign exchange reserves were inadequate; exchange rates were overvalued while internal purchasing power in most countries was inflated; and tariffs were inoperative because price inflations had reduced the incidence of the specific tariff rates that were the rule in many countries. During the immediate postwar period, therefore, only bilateral currency arrangements combined with quantitative regulation of imports and exports permitted

1/ League of Nations. Commercial Policy in the Inter-War Period. Howard S. Ellis, Exchange Control in Central Europe.

the rebuilding of foreign trade.

Bilateralism, however, drew strength not only from the critical conditions of the world economy at the end of the war; it was not universally regarded as a necessary evil. In spite of the experience of the thirties, during which time Germany had used bilateral trading as a means of dividing, exploiting, and dominating its prospective victims, bilateralism had come to be advocated in some quarters as a necessary complement to full employment policies. I hasten to add that it was this type of theorizing -- which as all theorizing did have its effects on the daily decisions of governments -- that Lord Keynes branded in his last article as "modernist stuff gone wrong and turned sour and silly." 1/

The reasoning on which this "stuff" is based can very succinctly be expressed as follows: At full employment, a country will require a certain volume of imports to sustain production at the required level; to obtain these imports a country needs to market exports in the same amounts and in the appropriate currencies; and to make quite sure that it will be able to do so, the country cannot afford to throw itself on the vagaries of the international market, but must strike a number of bilateral deals.

It does not take much time to point out that a policy based on this reasoning runs the great danger of sacrificing both real income and economic growth to full employment and that, moreover, it requires complete governmental control over foreign trade. No government has attempted to carry this policy out in its pure form. But the jarring experience of the Great Depression still lends considerable attractiveness to any policy that holds out the promise of

1/ Lord Keynes "The Balance of Payments of the United States," The Economic Journal (March 1946) p. 186.

insulation from the shocks of international depressions. In this sense, the reluctance to abandon bilateral trading today stems not only from the continuation of some of the immediate postwar conditions that compelled the recourse to bilateralism, but also from the fear that unconditional reintegration in a system of multilateral trade would result in frequent exposure to unemployment, particularly as a result of the "unstable character of the U.S. economy."

Before -- at long last -- getting into the real subject of our lecture let me shortly inquire into the character of the present trading system.

The principal European currencies remain inconvertible today. As a rule, they cannot be freely exchanged for each other, and even less for the dollar, either by nationals of the European countries or by the foreigners or foreign monetary authorities holding them. This absence of convertibility does not mean, however, that strictly bilateral balancing is enforced.

In the first place, the pound sterling is in fact freely transferable over a wide area through the mechanism of the sterling and transferable account systems; within these systems there is no payments obstacle to multilateral trade, but there are important obstacles to true multilateral trade in the form of state trading and bilateral quotas.

Secondly, between most European countries there is no requirement of equality between exports and imports. These countries have usually granted each other so-called "swing credits" and additional funds for the financing of bilateral deficits have been provided by the "drawing rights" established for the past two years under the Intra-European Payments Schemes. The essence of bilateralism, however, is not the requirement of bilateral import-export balance, but the inability to spend available foreign exchange resources whether deriving from exports, from credits or from grants, anywhere but in their country of origin and by this criterion intra-European trade

relations are purely bilateral except at the margin.

After the exhaustion of swing credits and drawing rights, a country must usually pay gold for further payments deficits, and from this point on, net exports to that country bring in gold or currency that is convertible. However, at that point, hurried conferences are usually called to "correct the situation" and further import restrictions are considered. With respect to the sterling area, there exists in general not even this marginal convertibility. For the countries belonging to the sterling area and to the transferable account system have taken upon themselves the commitment to hold sterling without limit; drawing on the sterling area dollar pool are the result of administrative decisions rather than the automatic outcome of the course of payments.

How can we then proceed from the present system of bilateral quotas and inconvertible currencies to multilateral trading?

There probably is general agreement on the point that the so-called dollar shortage is the principal reason for inconvertibility and bilateralism in the world today. Our subject, therefore, could be covered fully only by indicating how to deal with the dollar shortage. It would thus seem to encompass all the crucial issues of international economics. I shall, however, attempt to limit myself to consider the various gradual approaches to multilateralism.

The one-by-one vs. the collective approach

Two principal schools of thought may be distinguished in this respect: According to one school every country should work toward convertibility independently of other countries, while the other school advocates a collective approach, at least on the part of the Western European nations which participate in the European Recovery Program.

According to the first approach, each country can

and should take a certain number of steps — primarily the elimination of inflationary pressures, and the adoption of a realistic exchange rate — which would enable it to ease trade and payments restrictions with the outside world. Essentially this assertion is based on the belief that each country can tackle and solve its own dollar shortage in isolation: By renouncing extravagent spending, by thus creating flexibility and appropriate incentives to the reshuffling of resources, every country will be enabled both to live within its means and to do so without stifling internal and external controls.

These are healthy precepts and for many countries they are much in need of being repeated. Nevertheless, there are many who doubt whether our goal can be reached by so direct a route. They think that the cost in internal rearrangement of resources, in redistribution of income, and in dependence from economic fluctuations originating abroad may be deemed too high a price to pay by many countries. Moreover they are convinced that the current restrictions do not have their origin solely in the demagogic extravagance of governments, but must be traced in part to the divergent trends — not to the different levels — of productivity that have prevailed over a long period in the United States on the one hand and the industrial economies of Western Europe on the other. It is this thinking which has led to the second approach to world-wide multilateralism: It consists primarily in creating first a "center of strength" in Europe through the lifting of intra-European obstacles to trade and payments; the resulting strengthening of the European economy would then make it possible to lift barriers against the outside world at a smaller cost in adjustments and real income and with more confidence in the permanence of such an arrangement than would be possible if every country were to "go it alone."

Here we have then a dispute which is essentially caused by two different diagnoses as to the severity of the economic disease afflicting the dollar-short countries. Those who think that the disease is deep-seated claim that only their medicine will work, and,

in addition they would claim that even if their diagnosis should be overpessimistic, their proposed treatment would permit a less costly recovery than could be obtained by the traditional therapy.

In my opinion, far from being contradictory, the two treatments complement each other. It is highly desirable that each European country independently make as much progress as possible toward freedom from trade and payments restrictions with the outside world including the United States. Such a development is not inconsistent with even faster progress toward the abolition of intra-European restrictions. Only as the distant goal of complete European unification is being reached would there arise a conflict: Since an economically united Europe would have a common set of tariffs, quantitative restrictions (if any), and exchange controls (if any) vis-a-vis the outside world, it is possible that some countries would have to reintroduce some restrictions which they might previously have lifted in their independent quest for multilateralism. If, as I hope to show, there is some virtue in European unification, such a partial reversal of earlier progress would be more than compensated by making possible more rapid progress in the right direction for the area as a whole.

But there is another reason for which it is not only not inconsistent, but highly desirable that the two roads toward world-wide multilateralism be travelled at the same time. If and when complete European economic unification will be within our immediate reach, it will be all to the good if individual European countries will have made on their own the maximum possible progress toward multilateralism. The common wall against the outside world, which will then be erected, will be some kind of average of the individual country walls in existence at the time of unification. The lower the walls of individual countries, the lower will be the resulting common wall, and the greater the assurance that the European economy will not look inward but outward. I thus believe that it is not necessary to choose between the one-by-one and the collective approach. But I have yet to make the full case for the latter.

Is European integration a step toward multilateralism?

Is it possible to reach our goal of multilateral trade by slowly extending the area of multilateral settlement? A considerable controversy is now being waged on this point and because of its importance I shall devote the remainder of this lecture to its discussion. I submit that no general answer to the question can be given, and that the answer depends entirely on the specific region under consideration. A priori there is no reason whatever why the creation of a limited multilateral trading area should be a contribution to a world-wide system of multilateral trade. On the contrary, once the gravest inefficiencies of the bilateral system have been eliminated by the creation of a reasonably large area within which multilateralism prevails, the heat may well be off, so to speak, and we may get the building up of a largely selfsufficient regional bloc that does not look for further integration with the world economy. This has been the fear of many who have taken a negative view of the plans for "European integration."

There is, however, another possibility which would lead one to take a much more sympathetic view of current efforts: That is, the creation of an area in which the barriers to multilateral trade have been removed may help to remove many of the conditions which so far have held back progress toward general convertibility. This is precisely the theory underlying our efforts toward European integration. If it can be shown that the creation of a free multilateral trading area in Europe would make a contribution to the solution of the dollar shortage, then integration in Europe would definitely be a most valuable step toward general multilateralism and convertibility. We shall now examine whether this is likely to be the case.

By urging the countries participating in the European Recovery Program to abolish quantitative restrictions among themselves and to adopt plans looking toward the mutual convertibility of their currencies, we are proposing preferential or, if you like, discriminatory arrangements for the Western European area. This

is, of course, a novel policy for us to advocate since we have long been staunch defenders of non-discrimination. Even our traditional stand, however, was not without important qualifications: Thus it is well known that we are favorably disposed toward the most extreme form of discrimination, namely to customs unions, and that in the ITO Charter we have sanctioned even preferential arrangements provided they are meant as steps toward customs unions.

Past discussions of these matters look slightly out of focus today because, in the past, we did not subject everything to today's supreme test: The effect of a given policy on the dollar shortage.

Thus, one of the standard arguments against customs unions in the past was that the common tariff of the countries adopting the customs union might be higher on the average than the tariffs applying in the separate countries prior to the union. In this case the improvements in the division of labor within the customs union area may be more than compensated by a loss in international specialization between the area and the rest of the world. This argument is perfectly valid in itself, but it has a somewhat eerie quality in today's world when so large a part of "international specialization" consists of the United States providing goods and of the European countries receiving them.

We must thus examine the merits of European integration from the point of view of its possible contribution to the cure of the dollar shortage. The reasoning that has led the ECA to conclude that much was to be gained from European integration is well-known and quite simple in its outline: The establishment of a single large European market would, in general, improve the allocation of European resources; it would create greater adaptability and mobility; it would make possible the economies of large-scale productions; and, most important, it would increase competition and would be a spur to entrepreneurial efficiency and initiative. As a result, productivity would be substantially increased and Europe's competitive position in world markets would be immeasurably strengthened.

What, if anything, if there wrong with this reasoning?

It has been said the whole undertaking betrays the incorrigible naivete of the Americans ever bent on drawing false analogies from their environment and their history. In the first place, it is argued, the Western European economies cannot derive much benefit from integration since their economies are competitive rather than complementary. They cannot solve their problems by just trading more with each other for they must procure food and raw materials from abroad. In one effective formula: "sum of 18 deficits is still a deficit."

It is not necessary to waste much time on this argument since those who propound it have taken so little time in examining the thesis which they attack. We have already seen that European integration is advocated not in order to make Europe self-sufficient but to enable it to compete more efficiently in world markets. It is also strange to cite the competitiveness of European economies as a proof that integration is purposeless. Presumably, the more competitive two economies separated by tariffs and other barriers, the greater will be the increase in real income to be expected from the removal of these barriers and from the subsequent reallocation of resources.

At this point in the discussion, the argument of the anti-integrationists shifts somewhat. The trouble with Europe apparently is not only that its component economies are not complementary enough, but in addition, they are too competitive. Its industries have grown up over decades behind tariff walls. Upon scrapping these walls, tremendous dislocation and unemployment would ensue so that the cure would definitely be worse than the disease.

After hearing these arguments one would never suspect that a flourishing inter-trade in manufactured goods has played an important part in the total European trade picture. The existence of this trade suggests that the Western European economies, while highly industrialized, have traditionally been "integrated" to a considerable extent and might be susceptible of further integration without too much trouble.

To pursue this thought a little further: It seems to me entirely possible and even probable that considerable benefits of increased specialization could be obtained in Europe as a result of relatively small reshuffling of resources.

In the first place, every national industry in Europe has grown up over a long period of time and the various firms and productive units composing it are often of very unequal productivity. An abolition of intra-European protection would therefore in many cases not lead to a whole national industry being completely outproduced by a more efficient one in another country, but to the disappearance of the most inefficient units in both countries.

In the second place, industrial economies as developed and well-rounded as, for example, the British, German, and French ones, can usually add one line of output without an undue loss in terms of comparative costs even if the article in question is more efficiently produced elsewhere. They can simply use and adapt existing machine tools and other equipment, and need but little protection for this purpose. In the aggregate, however, all these small departures from an optimum division of labor will represent a considerable loss in real income to the European economy as a whole. The situation can be compared to the inflationary process in which every investment considered by itself does not look particularly objectionable. If this diagnosis is correct then an abolition of restrictions among the European industrial economies would mean that this process would not only be stopped, but could even be reversed without undue cost. Considerable increases in real income and productivity could thus be expected to result from the rational location of new investment and from relatively minor and painless switches and reconversions within the existing industrial structure -- without any wholesale destruction of fixed capital. 1/

1/ This point is overlooked in the interesting article of Henry C. Wallich and Frederick V. Loud, "Intra-European Trade and European Integration" Columbia Journal of International Affairs, Vol. IV (Winter 1950), p. 43. Much of the unsatisfactory state of the discussion around "integration"

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can be traced to the oversimplified classification of pairs of countries as either "competitive" or "complementary". The European economies are neither or both.

The critics of European integration are not contnet with contesting the presumed benefits of a removal of intra-European trade and payments restrictions; in a counterattack many have expressed a concern that such a removal might actually intensify the dollar shortage and thereby render more remote the attainment of convertibility and multilateralism. 1/

1/ In a different context, I have myself argued that a policy of systematic discrimination against the United States might intensify the dollar shortage (cf. "Disinflation, Discrimination, and the Dollar Shortage", American Economic Review December 1948, pp. 886-892). My reasoning was as follows: The reshuffling of resources necessary to export more to, and import less from, the United States might be prevented if the countries affected by the dollar shortage continue to import from each other items whose import from the United States they prohibit. For, as a result, the whole burden of readjustment would be thrown on the bilateral relationships between the dollar-short countries and the United States, whereas, if they were to cut back their purchases from each other along with their purchases from the United States, resources would be set free that might be applied to the production of goods for export to the United States or of substitutes for U.S. imports.

I still believe that there is truth in this argument. But it clearly has validity primarily to countries as broadly complementary as for instance the United Kingdom and the other sterling area countries. In particular, the argument applies to such commodities as the non-dollar countries already import and want to continue to import from each other even though they are not able, because of the dollar shortage, to import them from the United States.

The continuation of that trade (e.g. African tobacco against British manufactures) would not result

in any shift in resources among these countries. On the contrary it would prevent certain shifts that may be desirable especially if we assume that these countries have not fully exploited the possibilities of exporting to the dollar area. The lowering of barriers between the highly industrialized European economies, on the other hand, would have quite different results; it would mean an expansion of types of trade between those countries which they so far have attempted to block and whose emergence would be tied to shifts in their productive resources toward a more efficient pattern. The resulting greater efficiency of their economies in general is, <u>in this case</u>, likely to outweigh decisively the possible unfavorable effects of discrimination on the cure of the dollar shortage. (end of footnote of preceding page)

The principal argument here runs as follows: The removal in isolation of intra-European trade and payments restrictions will lead to an expansion of intra-European trade. This expansion, according to our critics, may derive either from a substitution of the European countries for the United States as a source of supply or from a shift of European exports away from the United States to other European countries. But, it is argued, the first effect is likely to be negligible since all countries have already fully exploited the possibilities of procuring essential commodities outside of the United States. Therefore, the net effect of the expected increase in European trade is likely to be a diversion of European exports away from dollar markets with a consequent intensification of the dollar shortage.

This reasoning may sound impressive, but I, for one, am not convinced by it. In the first place, if exports to the United States should really become less attractive as a result of the removal of barriers to intra-European trade, this could be remedied by an additional collective devaluation of European currencies. Secondly, the above analysis completely overlooks the dynamic elements in the situation. It treats the volume and kind of European exports and imports as given and only admits of variability in their geographic distribution. This is of course highly unrealistic. The

main effect of the removal of intra-European restrictions will no doubt be the emergence of new types of commodity flows tied to the curtailment of certain types of output and the expansion of other types within the various European countries. Most of the new commodity flows will therefore fit neither of the two types of shifts in trade detailed by our critics. They will bring about (and reflect) that more efficient specialization and distribution of productive functions which is the prerequisite for the strengthening of Europe's competitive position in world markets.

In this connection, a parallel to the controversy about the virtues of devaluation comes to mind: The anti-devaluationists have often pointed out how low demand elasticities would make devaluation ineffective in improving a country's balance of payments position. In logic they have had to recognize, however, that if the elasticities were so low as to make devaluation a failure the opposite monetary move, i.e. appreciation, would result in success.

Similarly, the critics of integration who maintain that the removal of barriers would worsen the dollar shortage should in logic advocate an increase of barriers among European countries. In fact why rest there and not come out in favor of a further fragmentation of Europe? It is doubtless true that if the province of Champagne were separated by high tariffs from the rest of France some champagne that is now consumed in Paris, would be shipped to New York. But it will probably be conceded that the destruction of the previous integration between the province of Champagne and the rest of France would weaken the viability of the whole area by far more than by the worth of such an increase in champagne sales in this country.

This reductio ad absurdum leads us to a further important argument for integration. The choice before us is not integration or maintenance of the status quo, but rather whether we wish to stop and then reverse the slow process of disintegration, which has been taking place in Europe almost uninterruptedly at least since

the First World War. As we have seen, disintegration is a dangerously easy path to go down on for the highly industrialized countries; if one of them produces cars, why should it not also turn out trucks? If trucks, why not also tractors? There are no big decisions to be taken as for instance when a country sets up its first steel mill; each step in the process looks like a relatively harmless interference with international specialization.

In the absence of positive steps, further disintegration is the likely course of affairs also for other reasons. At every shock, cyclical or otherwise, the national economies are likely to look to further insulation as a way out. Full employment is today an important national economic goal in most European countries. Few countries will hesitate to impose new restrictions on trade if they think that in this way they will safeguard employment. National sovereignty, combined with the rigid full employment postulate, is thus bound to lead to international economic disintegration. Our policy of integration is an effort to avert this development.

In the last analysis, our policy of integration is an effort to unleash and strengthen the dynamic forces of the Western European economy. Personally, I am inclined to place less trust in the economies of large-scale production that would be possible within a single free European market -- for many industries the present markets of the U.K., Germany, and France are of a sufficiently large size -- than in the general strengthening of the competitive spirit and of entrepreneurial initiative and in the productivity effects of an improved morale that would come with a free and united Europe. Of course, if there is no initiative to be strengthened and no morale to be improved, our efforts will be unavailing. The success of European integration thus hinges on the continued vitality of the Western European society. But belief in this vitality is at the same time the basis of our whole foreign policy and ought therefore to be taken for granted by our economic policy makers.

In advocating European integration as an important approach to the restoration of a multilateral trading system, we are, therefore, at least as right as we are in relying heavily on the recreation of a healthy Western European society in our struggle for peace.