An increasingly political issue

The current battle between Europe and the USA over exchange rates and the 10 % surcharge comes as no surprise to those who, for some years now, have seen relations worsening between the two sides of the Atlantic. It reflects not just an economic and social problem but an increasingly political problem as well.

In the immediate aftermath of the war, the United States, through the Marshall Plan, helped in the reconstruction of Europe, spending tens of billions of dollars on the old continent in the process.

That Plan was partly about getting Europe back on its feet and avoiding a growth in Soviet influence fostered by a climate of crisis and hardship. But it was also about giving back to Europe the financial resources transferred to the United States during the war to pay for the supplies, equipment and munitions it had needed. Also, much of this aid helped to stimulate American exports and ensure that American firms enjoyed a smooth transition from a war economy to a peacetime economy. To avoid wastage, the Americans pushed the Europeans to join forces with each other and cooperate. The result was the OEEC, the forerunner of today's OECD, and the European Monetary Agreement, a sort of forerunner of monetary union.

The first signs of American concern

It was towards the 1960s that the first signs of American concern about Europe began to emerge. There had, of course, been General de Gaulle's skirmishes with the American dollar. But, particularly from 1964 onwards, the American trade surplus began its steady decline, finally disappearing entirely this year.

Between 1956 and 1964, setting aside two tough years in 1958 and 1959, the US always maintained a global trade surplus ranging from \$3 000 to \$6 300 million. But this surplus gradually fell to \$4 400 million in 1965, \$3 500 million in 1966 and \$3 400 million in 1967, reaching \$100 million in 1968. In the past, the trade surplus had to a large extent made up for the outflows of capital and US investments abroad. But as the country moves into a trade deficit, the overall US balance-of-payments deficit can be expected to worsen.

It is nevertheless telling that, while this trend was emerging in the US, the balance of trade between the USA and the European Community remained reasonably stable. The United States consistently registered a trade surplus with the Six of between \$1 000 million and \$1 600 million (except in 1967 when it fell to only \$145 million). That means that the declining competitiveness of the American economy and the worsening American trade balance were not reflected in the balance between the USA and Europe.

As time passed and the United States sought to understand the reasons for this problem, they came to blame it mainly on the European Community.

American grievances

American grievances are today focused on certain countries' exchange rates. Those countries should revalue their currency against the dollar and thus put the United States in a stronger competitive position.

Also, Washington considers that the common agricultural policy discriminates against American farm products on the European market. Exports from America to Europe of agricultural products that enjoy price support have fallen from $640 million in 1965 to $340 million today.

Furthermore, according to the Americans, the VAT mechanism represents an 'artificial' barrier aimed at favouring European exporters and holding back imports. They consider, too, that the preferential agreements between the European Community and the associated states are contrary to GATT rules, under which preferential arrangements may be granted only where they are aimed at establishing a customs union, which is clearly not the case here.

Finally, the prospect of enlargement and of Britain's entry into the Common Market has inevitably heightened American concerns about the European Community, which is already the world's largest trading power. In November 1970, the American Deputy Under-Secretary of State for Economic Affairs, Nathaniel Samuels, told the European magazine Vision that, 'From now on, we will pursue a more vigorous policy of protecting American trade interests than has sometimes been the case in the past.'

The trade balance was always in America's favour

A close examination of the data partly confirms American concerns. Between 1960 and 1968, American exports to the European Community rose by 67 %. However, over the same period, exports from the Six to the United States increased by 157 %.

Between 1960 and 1970, French and British exports to the United States increased by a factor of 2.2, German and Italian exports by a factor of 3.4 and Japanese exports by 5.5. The Japanese are now selling to the United States as much as Germany, Italy and France combined.

However, the trade balance between the United States and the Europe of the Six has been, and continues to be, in surplus for the USA. In 1970, United States' sales to the European Community stood at $8 423 million while its purchases amounted to only $6 611 million. France and Britain run a trade deficit with the United States, as did Germany in 1970 and probably will again in 1971. This means that America's problem is more with its balance of payments than with its trade balance.

The Americans have not always behaved impeccably where free trade and customs barriers are concerned. The Europeans point accusingly at the Buy American Act, which favours American products in public sector contracts.

Quotas in disguise

The Americans have not abolished the American Selling Price * as they promised to do during the Kennedy Round. This increases customs duties on chemicals in particular.

Also, the 'voluntary' restrictions they have introduced on textile and steel imports are, in fact, disguised quotas. On this issue, the analysis by a senior American official, John Renner, Head of the Department of International Trade in the State Department, is particularly clear-cut: Since 1963, the Japanese have eliminated 71 quotas and the European Community 11. During the same period, the United States created 60 new ones. What is more, American quotas concern around 17 % of all industrial imports. Japanese barriers to trade cover almost 12 % while the European Community restrictions concern some 4 % of its imports. John Renner summed up by saying: All things considered, the quantitative restrictions imposed by the European Community concern a relatively small proportion of industrial trade; Japanese quotas affect a large part of this trade and American restrictions affect the highest volume of products traded.

The Nixon administration is perfectly aware of these facts. Clearly, therefore, the current negotiations and the 10 % tax are no more than pretexts. At issue is the entire international monetary system, the problem of American forces overseas, particularly in Europe, and new rules to govern international trade.

* Provision under which import duties are applied to foreign products to raise their price to the same level as identical American products.

Caption
In November 1971, the monthly publication 30 jours d'Europe recalls the origin of the difficult relations between Europe and the United States and analyses the monetary and commercial grievences exchanged between the two parties.
Source
HEYMANN, Philippe, Un problème de plus en plus politique, in 30 jours d'Europe. Novembre 1971, No 160, p. 29; 31. Translated by the CVCE.