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Abstract:

The topic of this paper is the U.S. policy towards regional economic integration during the years 1961-63. At that time the most viable example for regional economic integration was the Western European process of regional unity and for that reason this paper is geographically focused on the United States and Western Europe. The U.S.-Western European relations had three spheres of influence: political, military and economic. The framework of analysis for this paper is to examine the ideological evolution of U.S. foreign policy within the economic sphere of influence in relation to the increasing Western European economic challenge to U.S. economy in 1961-1963. The evolution in American thinking in the early 1960s is assessed through the concepts of regional unity and economic growth, which created a new ideological framework for U.S. foreign economic policy.

Previous studies have seen the U.S. foreign economic policy in 1961-1963 as a clear continuum of the postwar strategy of international trade liberalization, a strategy that favored long-term political and security objectives over short-term economic costs to the U.S. economy. However, this U.S. long-term strategy was seen as preferable as long as the domestic economy remained strong enough to withstand the economic costs it created. In the early 1960s, the domestic legitimacy of the long-term policy was increasingly questioned as the U.S. economy looked relatively stagnant in comparison to its major competitors among the advanced countries: Western Europe and Japan. This situation not only created basis for the thought that the pace of Western European political integration in comparison to its economic performance was disappointingly slow, but also that U.S. policy regarded certain aspects of Western European integration as counter-ideological to U.S. expectations based on the ideas of political realism and idealist internationalism.

Between 1961 and 1963, the response of the U.S. policy to Western European challenge was two-fold: first, a revitalized foreign economic policy initiative for global trade liberalization, and second, an effort to readjust the domestic economy by practicing Keynesian economics. The foreign approach was a freer trade-mercantilist policy that became a prelude to the growing economic nationalism in the late 1960s. The domestic approach made domestic
economic growth as the primary goal for government policy. The United States also reassessed its policy in relation to the political and economic costs of American commitment to Western Europe, and most importantly came to acknowledge a widening gap in the common interest between the United States and Western Europe.

1. Introduction

To focus on the ideological context in U.S. foreign policy towards regional economic integration can be examined from three perspectives. The historical perspective describes the U.S. policy initiatives towards regional economic integration within the wider international context of the Cold War and explains their implementation. The theoretical perspective studies the abstract policy concepts such as the national interest or national security and their effects to U.S. foreign policy during the chosen research period. It also includes the study of policy innovation. The institutional research perspective concentrates on examining the different agreements, institutions and organizations that are involved in making U.S. foreign policy; this perspective also describes the role of institutions in U.S. policy-making and examines the social, legal and the political factors that led to their birth and operation.

For this paper I have chosen a perspective that combines partly the theoretical and historical perspectives by studying two specific ideas, regional unity and economic growth, and their influence in forming U.S. foreign policy within a historical framework. In political history, the study of ideas focuses on those ideas that are still active among us, still affecting the concrete political life. I see regional unity and economic growth as ideas that

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1 I would like to thank the Institute of Governmental Studies at the University of California, Berkeley for the year 1995-96 as a Visiting Scholar. And furthermore I would like especially thank the following individuals for providing an innovative and interesting atmosphere at Berkeley: Profs. Anthony Adamthwaite, Ann Crigler and Nelson W. Polsby; for their assistance I thank Eunice Baek and Susan Larson. Other unmentioned individuals have also greatly contributed to a very pleasant year.
have and will further shape contemporary politics. The chosen years for research, 1960-1963, were not only a watershed in the history of U.S.-led postwar international economic liberalization, but also a period of ideological change in U.S. foreign and domestic politics.

In this paper ideas are defined as political conceptions, emerging from specific interests within the society and theoretically based on a certain societal philosophy. In historical research the question of whether one idea is right or wrong has not much value, even if admittedly this has not always been the guiding principle for all historians. The main research issues are why and how a specific idea become important. In practice the line between the study of ideas in political history and the study of ideas in other social sciences has become almost invisible. Thus, it is not the intention of this paper to revisit the particulars of the various postwar institutions, e.g. GATT, OEEC or NATO, nor to describe U.S.-Western European relations in great detail.

1.1 The Research Concepts

Regional Unity

In this study the ideological concept of regional unity is synonymous with the concept of regional integration. Regional integration can be further divided into two types: economic or political integration. During the chosen research period of 1961-63, the most viable form of regional integration existed in Western Europe, an integration process that included both political and economic aims. It is a widely agreed in the European integration history literature that European economic integration could not have existed in its form without emphasizing its political objectives.

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2 This paragraph follows the general thoughts presented by Dr. Seppo Hentilä in his description of the study of ideas in political history, in Nevakivi, J., Hentilä, S. and Haataja, L. - Poliittinen historia; Johdatus tutkimukseen. Finnlcetura, 1993. The influence of Dr. Markku Henriksson in North American Studies has contributed immensely to the chosen subject of this paper.
The definition of integrated economy, in the case of an individual economy, is a situation where different sectors of economy work together efficiently in a state of mutual interdependency. This kind of situation is usually coincidental with achieving sustained economic growth. In the case of the postwar Western European process, a case of mutual interdependency among several formerly independent economies, the same definition is accurate. Ernest B. Haas provides a definition of regional integration in his book "The Uniting of Europe". He writes that economic integration must possess the following characteristics:

"(1) agreement for gradual but complete elimination of tariffs, quotas and exchange controls on trade among the member countries; (2) abandonment of the right to restore trade restrictions on a unilateral basis for the duration of the agreement, regardless of difficulties that may arise; (3) joint action to deal with problems resulting from the removal of trade barriers within the community and to promote more efficient utilisation of the resources of the area; (4) some degree of harmonisation of national policies that affect price structures and the allocation of resources (for example, social security and agricultural programmes) and of monetary and fiscal policies; and (5) free, or at least freer, movement of capital and labour."  

This definition of regional economic integration was increasingly valid and topical during the years 1961-1963, for Western European economic integration at that time was gearing up to proceed even further and faster following the policy of gradual integration. Even if the perceived economic or political goals were not fulfilled during the 1960s, the early years of the decade were clearly a part of the same dynamic process of the golden age of growth in

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4 Haas, Ernest B. - *The Uniting of Europe*. Stanford University Press, Stanford CA 1958. pp.11-12. Haas acknowledges that this definition was used not only by Franz Gehrels and Bruce F. Johnston in their article "The Economic Gains of European Integration" (Journal of Political Economy, August 1955). A similar definition had, according to Haas, been used by Paul Hoffman and Robert Marjolin, who "added that the achievement of these goals required the concurrent establishment of political unity."
Western Europe that had led since the late 1950s to the economic challenge to U.S. economy.

Economic Growth

The second concept, economic growth, was the leading cause for emerging visions of future economic nationalism in U.S. foreign economic policy. The early 1960s meant the beginning of era, which increased the overall influence of economics in policy-making; an era that mostly obtained its theoretical support from Keynesian economics. Domestic economic issues regained certain independence from the foreign policy issues of the Cold War, but at the same time domestic economic policy was increasingly and effectively used as a part of the economic warfare against the Soviet threat. As Walter Heller, the chairman of the Council of Economic Advisers (CEA), stated, the 1960s meant the coming of age for economics. His words meant that the executive branch was not only using the methods of modern economics in combating the crucial problem of unemployment and in promoting domestic economic growth, but also sought to preserve the international economic position of the United States. For it was understood that sustained U.S. economic growth provided a necessary basis for any successful Cold War policy.

The concept of economic growth itself can be briefly defined to mean the increase in the real level of net national product. The Keynesian growth theory, backed by the Harrod-Domar growth model, became predominant in domestic economic policy-planning during the Kennedy administration, even if the classical economic growth theory retained some of its influence. The main concern of the Keynesian growth theory is economic stability, i.e. the stability of economic growth and unemployment. These were seen to be achieved by following an active government policy, either by direct

6 Pearce, D. W. (ed.) - The MIT..., p. 120.
7 Ibid., pp. 179, 182, 231-233.
intervention or by national planning that would ensure a "steady real growth at a constant target rate of unemployment."8

In his commencement speech at Yale university in 1962, Kennedy stated: "What is at stake in our economic decisions today is not some grand warfare of rival ideologies... but the practical management of a modern economy... The national interest lies in high employment and steady expansion of output, in stable prices, and a strong dollar."9 These words demonstrated the conviction that the concept of national interest was not anymore primarily a political or military issue, but increasingly an economic issue, and consequently the domestic economic objective was considered to have growing importance among the Cold War foreign policy objectives. National economic growth had become the main principle of the administration's domestic economic policy, and even if the support for foreign regional economic integration had been institutionalized to serve the U.S. long-term political strategy, especially by the Department of State, it could not help being affected by a change in the American perception of the economic costs of regional unity to the U.S. economy.

2. The American Postwar Commitment to Western Europe

During the two previous decades, the United States had formed a wide structure of an international system of alliances and promoted U.S. dominance based largely on the postwar strategy of Containment policy. In the North Atlantic region this strategy took the form of the Western Alliance collective security alliance, the North Atlantic Treaty Organization, (NATO) and as a part of the international liberal economic order, the Organization of European Economic Cooperation, (OEEC). Although the Western Europeans were already from the late 1940s encouraged to independently plan and

construct their path towards regional economic integration, and the United States assumed the role of the global dominant leader yet it retained considerable influence, especially in stressing the strategic importance of regional unity in Western Europe. The regionally unified Western Europe also attested the American ideological expectations. Furthermore, the Western European concentration on the task of economic integration and reconstruction gave the United States an even greater opportunity to construct the postwar international economic system according to American ideological, economic and political objectives.

The American postwar commitment and willingness to Western Europe ran contrary to the traditional U.S. policies of neutrality and isolationism. Moreover, the European dependence on American power and aid formed the priorities for U.S.-European relations during the early years of the Cold War. As a contrafactual question it is interesting to contemplate how the U.S.-Western Europe relationship might have developed if the Cold War had not existed as an unifying factor. Perhaps the structure of European nation-states would have resembled the aftermath of World War I and perhaps the United States might have returned to the isolationism of the interwar period. However, as mentioned the postwar American commitment to Western Europe has been an exception rather than a rule in the history of U.S. foreign policy. For the classical concepts of neutrality and isolationism in American foreign policy which lasted through various modifications from the birth of the republic to World War I provided the standard for American foreign policy towards European nations for over 150 years. This policy had followed the political philosophy principle of John Locke's protective state of nature. The users of this principle argued that the natural right to freedom prevented the United States from siding with any of the European powers.

Hence World War I started the process of modern American ideological, political and military commitment to European affairs, for

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U.S. policy makers not only committed American troops on a grand scale to Europe for the first time, but also, for the first time in its history, the United States appeared prepared to seize the role of world leader. According to the contemporary American idealists, and their belief in the influence of international law (of the early twentieth century the Wilsonian internationalists) the establishment of a collective security system under the League of Nations was intended to defend peace and ultimately to eliminate war from the world. However, the U.S. policy of isolationism resurfaced strongly in its modern version after World War I. Despite its name it did not reflect the characteristics of its earlier predecessor, the combination of classical neutrality and isolationism, which had considered American exclusion as a way to protect the exceptional U.S. societal model from any outside influence. The classical model had not seek a total exclusion from world affairs, for U.S. influence in the traditional balance of power policy in Europe was accepted. However, the post-World War I isolationism was modeled as an inward-looking policy, creating a Fortress America, that disapproved of active U.S. foreign policy operations, especially in Western Europe.

The principle of the collective security system was used again after World War II for the creation of another institution, the United Nations. Idealist advocates for a collective security system saw it as a new opportunity to remove the tainted part of nationalism, seen as the leading cause of conflicts between nation-states. The perceived malignancy of traditional nationalism provided also an added incentive to seek Western European regional unity. Despite its well-meaning idealism, the basic problem of collective security in relation

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to political reality, within Western Europe or any other region, has been the tendency of individual nation-states to protect their independence in deciding whether partaking in collective actions is compatible with their domestic interests\textsuperscript{14}.

Besides the establishment of the United Nations, the United States supported a separate, regional option for Western Europe, where the founding of a veritable political union became the basis for American post-World War II commitment. This policy assumed that Western European gradual economic integration would eventually lead to further political unification, and if not a federal union, at least to closer political unity than was evident in the early 1960s. The supportive policy was adopted as the Cold War became a political reality and the United States finally abandoned its wish to continue the war-time collaboration policy between the three major Allies - the United States, the Soviet Union and the United Kingdom. At the outbreak of the Cold War, the United States recognized the economic, political and military weakness of its Western European allies. In order to improve the situation, the policy initiatives of the Truman Doctrine and the Marshall Plan were introduced. Their ideological foundation was laid by stressing the concept of U.S. \textit{national interest} that required an American commitment to Western Europe.

2.1. National Interest

The academic explanations presented for U.S. foreign policy of the Truman Doctrine and the Marshall Plan, institutionalized the idea of national interest to U.S. foreign policy. The classical policies of neutrality and isolationism had rested solidly on the belief that the United States as a federated nation, the so-called \textit{Federalist conception} \textsuperscript{15}, was different from other nation-states in the world. From this belief, it was deduced that American interests in foreign policy were also inherently different from the traditional policy and

\textsuperscript{14} Brown - \textit{The Causes...}, pp.162-163.
\textsuperscript{15} Morgenthau - "What is...", p.1.
diplomacy of European nations. However, this did not mean that the United States could not operate an active foreign policy, e.g. U.S. policy in the Far East during the 19th century.

As the Cold War started, the United States introduced a foreign policy principle referred to as political realism and endorsed the concept of national interest, but the old idealism that saw the United States as different from the other nations did not fully concede to the pure realist principle of national interest. A federated nation, a United States of Europe, was seen as the best solution to achieve prosperity and stability in Western Europe, hence idealism remained a strong part of postwar U.S. policy towards regional unity. And even a firm supporter of political realism, Hans J. Morgenthau, stated in 1952: "...I have little sympathy with this new conception of the national interest of the United States, and that I firmly believe in the truth of the Federalist conception." 16 Morgenthau had constantly criticized American foreign policy for a lack of consistency, but later became a supporter of the chosen foreign policy during the Cold War.17

Thus, the postwar U.S. foreign policy adopted an ambiguous nature that not only attested to the name of realism and pragmatism, but at the same time used idealistic rhetoric and ideas as a moral argument to declare its priorities for the new world order. The U.S. policy towards regional unity in Western Europe is a good example of this ambivalence - both ideas and priorities mattered in the conduct of U.S. foreign policy: a) ideas had deep implications to U.S. policy perceptions and new policy initiatives were usually defended by ideas, that were useful in gaining legitimacy for foreign policy; and b) pragmatic priorities such as domestic economic welfare affected the rational contents of foreign policy. Even if the concept of classical political realism has been seen as dominant in post-World War II international politics18, the role of ideas in politics did not yet vanish.

16 Ibid., p. 3.
The adoption of Western Alliance leadership during the early stages of the Cold War gave the United States responsibility over a wide range of issues and regions. Western Europe was just one of these responsibilities, but for a long time it remained the most crucial one. At present moment, we might say that the United States seems to be less interested in Europe than it has been for decades. But during the Cold War decades of 1940s and 1950s the United States still regarded Western Europe as number one on its foreign policy priority list. However, during the 1960s, U.S. policy focus gradually shifted away from Western Europe, especially since Southeast Asia was chosen to be the battlefield on which to face the Communist onslaught. But before this period, U.S. policy in Western Europe was eager to found several organizations to deal with specifically Western European issues, e.g. the OEEC, and in the security front NATO, besides the more internationally focused organizations such as GATT.

The establishment of the OEEC in 1948 was the first step in U.S. policy towards regional economic unity in Western Europe. It was initiated by the U.S. policy initiative, Marshall Plan, but was structured by the Europeans. However, U.S. policy instructed Western European nations to coordinate their economic policies according to U.S. objectives. Despite contrary American expectations the OEEC became itself an instrument that sought economic cooperative policies, preferring the traditional approach of intergovernmental cooperation without making any political commitments between European nations. Thus, it did not meet the requirements of advocates for European political integration. The economic implications of the OEEC tended to favor short-term solutions over a commitment to tackle long-term issues such as the strategy for European economic growth. However, the OEEC was an incremental step towards increasing the mentality of cooperation in Western Europe. In 1960 the United States actively sought to develop the OEEC's new form of organization - the Organization for Economic

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Cooperation and Development (OBCD), which was considered necessary to aid in patching the emerging rift in Western Europe between the European Economic Community (EEC) and the European Free Trade Association (EFTA). 20

Even if the United States had been dedicated to Western Europe in the late 1940s, the following decade proved harder in policy terms. First of all, during the 1950s, despite its further development in economic cooperation and later in economic integration with political motives, Western Europe was seen partly as an outdated region that continued to implement the policy of colonialism in Africa and Asia, delaying progressive reform in the Third World. It was claimed that U.S. policy, in its support of Western Europe, had forsaken a crucial part of its traditional political idealism of equality, democracy, optimism and moral values for progress21. This difference was partly reflected in the Suez crisis in 1956. However, the issue of colonialism set aside, there was no lack of progress in Western Europe. The improved economic performance of Western Europe not only gave the European nations a sense of increasing independence from the United States, but also raised concerns over the discriminatory effects of regional unity.


The decisive moment in U.S. support for Western European political and economic unity materialized at the birth of the European Coal and Steel Community (ECSC) in 1952. The French proposal for pooling the coal and steel industries became an idea that seemed to provide for the Americans the necessary means to achieve idealistic movement for European unity, and also complemented the priorities of political realism that emphasized the effects of Franco-German

20 See for example Letter from Secretary of State Rusk to Austrian Minister Kreisky, July 1, 1961, Department of State, Central Files 375.800/6-761.
reconciliation, thus partly helping to solve the most crucial issue in Western Europe for United States - the German Question.

The ECSC created a customs union that was further defined by the creation of the European Economic Community (EEC) in 1958. The foundation of these institutions was a significant moment in European history. For, since the Prussian Zollverein, the idea of regional economic unity had persistently existed in Europe, but before the 1950s a concrete step in creating multinational integration had not been taken. As the Europeans were creating and inventing the practical side of these European institutions, American scholars were making further theoretical assessments over the effects and nature of the customs union and European unity during the 1950s and the early 1960s.

The customs union theory can be briefly defined as a theory which examines the effects of trade barriers, commodity discrimination and country discrimination, within a geographically defined area.22 The two effects of regional economic integration - trade creation and trade diversion, whether to the member-states or, in the case of U.S. policy, the effects to third countries, were at the center of the discussion in defining the consequences of European regional economic unity: whether the integration process is desirable and what its nature and degree will be. The desirability of more effective exploitation of economies of scale in Western Europe was agreed upon, but the attached institutional prerequisites and the form of integration of Western European economic integration were the leading causes of disagreement23. The extraordinary rates of economic growth in Western European member-nations became an increasingly important subject as the concept of economic growth gained further importance in U.S. policy-making.

Western European economic unity was estimated in relation to countries outside the regionally limited integration process. It was

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declared as having mainly non-beneficial effects to third countries, including the United States. Even if some estimates expected growth in U.S. exports when Western Europe reaches a stage of economic development that promotes increasing import demand. Thus in a wider context, the trade diversion effect of Western European unity was seen as a loss of global welfare. The probable effects of creating more inter-European trade and lowering the amount of overseas imports were measured and a conclusion was reached that "economic union, whether confined to customs union or going beyond it, is likely to strengthen the bargaining power and hence improve the terms of trade of the union vis-à-vis the outside world". Furthermore, the existence of European regional unity as an example of the demise of the nation-state was important in the study of contemporary international politics. The federalist ideas of the creation of a functional political community in Western Europe emphasized the distinction between the economic and political integration. Political integration was seen in Western Europe as a noble objective, for it was the basis of the original French plans for gradual integration that aimed to secure peace in Western Europe, and was strongly supported by the United States. The postwar U.S. governments had adopted a staunch foreign policy principle that was prepared to support Western European unity despite its adverse economic effects.

Further economic and political studies were made by various administration departments and the Congress and their results were reflected in U.S. policy-making and policy-planning. During the early 1960s the concerns over Western European regional unity revolved in part around the following issues:
- The role of NATO, increased efforts for political cooperation and its effects on economic and political integration in Western Europe;
- The "secret" of the rapid Western European economic growth compared to the relatively stagnant U.S. economic growth.

24 Ibib., p. 61.
- The establishment of the OECD and its use in repairing the damage done by the rivalry between EEC and EFTA; and most importantly
- The rising concern over whether European regional integration was providing the political results expected by long-term U.S. foreign policy.

Thus, for the first time in the early 1960s, there emerged increased anxiety whether the EEC-Six were capable producing actual political unity, or as to whether it was simply forming a customs union economically and a "Third Force" politically against the United States and other non-member countries. It was criticized that previous postwar U.S. foreign policy had been too centered around forming military alliances and had totally forgotten to seek other forms of alliance. However, the Kennedy administration followed the policy of the earlier postwar U.S. administrations in considering domestic economic costs as a necessary evil in supporting European regional unity, but declared, during the EEC-United Kingdom negotiations over membership, that it was willing to accept these costs only if the United Kingdom would join the EEC and the French pull towards an inward-looking community could be avoided. Another kind of situation, would according to the U.S. approach, lead European regional unity on a path which increased economic discrimination against the United States.

3.1. U.S. National Economic growth

The Kennedy administration was not prepared to tackle domestic economic issues from its beginning, for Kennedy was elected by a narrow margin, and it meant that any bold new moves in domestic policy were being avoided during the first part of his term. This was especially true with the issue of a proposed tax cut which was recommended by Walter Heller. During 1961, the

26 See for example, Memorandum of a Conversation between U.S. and Italian Representatives, February 6, 1961, Department of State, Central Files 375.800/2-661.
27 See for example, President Kennedy at a White House meeting, April 13, 1961, Central Files 1835, Lot 65 D 366.
28 The new Tax Bill was presented to Congress in January, 1963.
economy started once again to show signs of recession, and for Kennedy, as for any elected official, it was politically necessary to show that the government was doing something to increase U.S. growth. The solution for sustainable economic growth seemed to lie in Keynesian theories.

One Council of Economic Advisors (CEA) member during the Kennedy era, James Tobin, called the years 1961-63 "the intellectual revolution in U.S. economic policy-making". The Kennedy administration and especially the CEA brought forward new economic ideas, but at the same time Kennedy continued to enforce a contradictory policy for public economy. The administration endorsed both the new Keynesian main concept of economic growth and simultaneously tried to maintain a balanced budget approach. However, during 1962 Kennedy started to lean primarily towards the concept of economic growth and thus approved a doctrine that did not see an unbalanced budget as the greatest evil. For Keynesian theory saw the budget not as the key for economic prosperity, but instead focused on the effects of income tax reduction to the U.S. economy.

In an academic sense, the ideas endorsed by Heller and the CEA were not new, but the full implementation of Keynesian macroeconomic ideas in U.S. economy was an important policy innovation. The phrase "new economics" was coined by people outside the White House who did not participate in economic policy-making. The Kennedy administration's thinking in most cases was still deeply rooted in the more traditional business cycle theory. However, the administration began to see government policy in the role of moderator for the effects of the business cycles. This kind of macroeconomic policy was already practiced in some Western European countries, where the neoclassical synthesis agreed that the

29 The other members were Walter Heller and Kermit Gordon. In 1962 James Tobin left the CEA and Gardner Ackley took his place.
task of macroeconomic policy is to stabilize the aggregate demand by utilizing the tools of fiscal and monetary policy.\textsuperscript{33}

Keynes' description of economics had become increasingly important for politicians during the postwar-era, and the role of economic theory was thus strengthened in decision-making. Kennedy's domestic economic policy under the influence of Heller saw the traditional role of economics as too limited. The new policy approach aimed to attack the long-term problems for the national economy. The agreed opinion was that economic growth in the United States was stagnating in comparison to Western Europe and Japan, and it was thus lacking behind these competitors.\textsuperscript{34} In absolute terms the postwar U.S. economy after the Eisenhower years was prosperous, with the average growth at 2.5 percent per year and the earlier recessions of the Eisenhower era after 1961 seemed to reach their end. Kennedy new economics doctrine seemed to be working and, as Heller later commented, the period meant "a return not just to the letter but to the spirit of the Employment Act of 1946".\textsuperscript{35}

The Employment Act of 1946 was the result of a postwar reexamination in defining the economic role of the government. Its central original idea was that, if there is significant unemployment (the unemployment figures of the 1930s were still a clear memory), the government can, through a \textit{budget deficit}, to achieve "maximum employment, production and growth".\textsuperscript{36} The Employment Act itself brought Keynesianism into the foreground in domestic economic policy, but after harsh Congressional debate the reigning free market system remained the primary system and the role of government intervention was considered to have secondary position. Thus, in 1946, Keynesianism had not become the central U.S. economic policy.


\textsuperscript{36} Carroll, p.27.
The ideas concerning the Employment Act, especially the idea of achieving maximum employment, had been introduced as concrete political goals. Despite the fact that the Kennedy administration's new economics was influencing the process of U.S. economy in 1961-1963, the delicate issue of balancing the budget and further promoting economic growth through export trade expansion caused a clear division between the Executive branch's innovativeness and the traditional more protectionist ideas of Congress in economic policy matters. Even if export trade expansion policy promised increasing trade liberalization and new market access for U.S. goods, it also meant increasing access for foreign imports to the U.S. market.

Ultimately, after skilful negotiations and bargaining, the proposed and passed Trade Expansion Act of 1962 (TEA) produced a major victory for Kennedy's new economic policy by increasing support for more open trade even among its former opponents. The TEA was, I agree, aimed to continue the use of export trade issues as a "strategic weapon"37 in the Cold War strategy, in strengthening the coherence of Western Alliance and Atlantic unity. For the Kennedy administration was, as clearly as, any other postwar presidential administration between the rock and the hard place. All major initiatives in foreign economic policy, even if primarily aimed to improve domestic economics, were interlinked to foreign policy objectives in order to use the concepts of national interest and national security for gathering support in Congress and among the electorate. However, the interpretation that the Trade Expansion Act was merely a part of an overall long-term foreign policy strategy, tends to undermine the perceived domestic economic importance of the Act to U.S. economic growth in 1961-1963.

For Western European nations, in order for the United States to achieve a unified foreign economic policy for Western Alliance and continue the U.S.-led commitment to global postwar trade liberalization, the TEA was explained to prevent any U.S. protectionist tendencies from gaining further ground. But the TEA

37 Michael Mastanduno used this term in his work "Trade as a strategic weapon: American and alliance export control policy in the early postwar period" (1988).
was for the Kennedy administration's new economics also an important step in the chosen policy of macroeconomics - the TEA was in large part a domestic economic policy, one aimed at providing a solution to the EEC's economic challenge to the U.S. economy. By linking the TEA with foreign policy, the administration gained the support of Congress and important special interest groups for the initiative, thus reinforcing the image that a foreign policy framework overshadowed the domestic economic concerns.

The TEA was thus considered to implement a policy vital to U.S. national interest. The concept of U.S. national interest in the early 1960s, had various meanings to different groups, whether within the government or outside of it. The 1961 report by the Senate Committee on Commerce defined the national interest in two levels: international and domestic. The first implied the concept of national security, the interest in preserving national survival and the promotion of political freedom. It demanded further military security and the continued cooperation of Western political, economic and military powers. The second concentrated on the maintenance of U.S. economic prosperity: in 1961 this meant promoting political will for rising levels of employment and domestic economic growth. The congressional report also clearly defined the national interest as a federal concept, not as one subject to the pressures of various private interest groups. However, as a whole the national interest was expected to represent the various interests of the nation together "to be the interest of every State".

As mentioned earlier the decisionmakers understood the importance of economic growth not only for the domestic economic welfare, but also the capabilities it provided for U.S. foreign policy. Thus, the influence of domestic economic growth in U.S. foreign policy could be explained in three ways:

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1) how economic growth increased the amount of available resources for the pursuit of foreign policy objectives,
2) how it altered the U.S. market and makes it more open for the Third World products, (an increasingly important part of idealism among Kennedy's foreign policy objectives), and
3) how it shaped the U.S. image in abroad both economically and ideologically.

The first kind of influence was considered as basic - economic growth ensured that U.S. foreign policy can operate in a wide context, as it had done after World War II. Without sustainable domestic economic growth the United States had lacked the required economic resources to fulfill its commitments. This situation provided a serious challenge to the Executive branch's and the State Department's mutual commitment since Cordell Hull for maintaining a global liberal order and preventing any possible relapse towards increasing isolationism.

The second influence reflected the notion that a rapidly growing U.S. economy with full employment resulted in a growing demand for foreign imports, and in the case of Third World countries this was to be an increasing demand for raw materials. The third kind of influence - the U.S. overseas image suffered from poor domestic economic performance. The strength and objectives of the postwar U.S. policy had been associated with American economic dominance, which in the early 1960s appeared to be threatened by the rise of economic and political independence in Western Europe. Hence a continuing rate of stagnant economic growth was seen to even further lessen U.S. influence in guiding European regional unity.

Kennedy's economic advisers did not see national economic growth levels as the only indicator of U.S. power, for they realized that U.S. political leadership, or hegemony also had a non-economic basis. But in the United States, the concept of economic growth had not been the conscious object of domestic economic policy until the Kennedy administration\(^40\). The new economics pushed economic growth into the limelight as a potential guarantee for continuous U.S.

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political influence in world affairs. However, as mentioned, a prosperous national economy was not the only way to withstand the negative effects of foreign competition. A vigorous export trade promotion was an answer to that.

The importance of export promotion in Kennedy’s domestic economic policy was a result of studies which not only compared the percent levels of exports of Gross National Product (GNP) between EEC and the United States, but these studies also revealed a deep lack of interest in raising U.S. production levels through exports. The export trade expansion policy in order to succeed aimed to turn American interest towards foreign market opportunities. For achieving higher production levels, the United States might learn something from the EEC, which undoubtedly was one of the secrets of contemporary Western European economic prosperity, even if a major reason was also the increased inter-European free trade. If the idea of economic growth had become a necessity in U.S. economic policy, so the idea of increasing U.S. export trade in foreign economic policy was following.

3.2. The foreign influence of TEA

The Kennedy administration's foreign economic policy was a combination of freer trade doctrine and a kind of mercantilism, that aimed to provide some protection to domestic industries. The concept of mercantilism is used, for protectionism is usually considered opposed to freer trade. However, the terms freer trade and mercantilism are not necessarily contradictory terms, for mercantilism is not altogether synonymous with protectionism. For mercantilism sees the coexistence of freer trade and limited protectionist policies as possible policy.41

Thus, the Trade Expansion Act of 1962 endorsed further worldwide trade liberalization and export promotion within GATT,

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but also sought to ensure certain measures of protection for domestic production. Nevertheless, the main priority was to increase production through vigorous export trade with more open access to foreign markets. The TEA continued the U.S. trade policy principles of reciprocity and nondiscrimination, and introduced a new protective concept of adjustment assistance. Reciprocity had been an integral part of U.S. trade policy since the beginning of the Republic. It can be defined as the maintenance of balance in trade relations where trading partners provide access to each other's markets and follow the rules of fair trade.\(^4^2\) The principle of reciprocity also includes the possibility of retaliation, if the balance of trade is threatened either by a violation of the fair trade rules or by an imbalance between trading partners.

Nondiscrimination is also an well-established principle in United States trade policy. Its definition includes many variations, and a pure theoretical definition would assume that a condition of perfect free trade can exist. However, the practical definition of nondiscrimination assumes differently, by taking into account the existing protection of domestic production, and thus defines as "the differential treatment of the same product when imported from different countries."\(^4^3\) Thus, in the early 1960s, the common tariff policy of EEC was a priority for U.S. foreign trade interests.

Adjustment assistance meant the implementation of an idea that aimed, at least in theory, to integrate the interests of U.S. domestic and foreign economic policies; the need to restrict import injury to U.S. production and to help domestic economic sectors adjust to foreign competition\(^4^4\).

The TEA proposed a new multinational GATT round of negotiations, the Kennedy Round, that has been called the high-mark of postwar trade liberalization efforts. It certainly marked a clear difference from the earlier round of negotiations, e.g. the Dillon

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Round. But it also meant the coming end of truly liberal postwar U.S.-efforts, for it was followed by an emerging era of national protectionism and trade conflicts between the industrialized countries. The U.S. response to the challenge of Western European regional unity led to a further emphasis in reaching successful GATT negotiations. The Kennedy administration not only managed to expand the Presidential negotiating authority for global or bilateral trade agreements by the TEA, but also to change the pattern of the negotiation process within GATT.

The TEA bill gave Kennedy the authority to press for tariff reductions by 50 percent and, in certain cases, as much as by 100 percent. And it introduced the linear, across-the-board tactics, into GATT to replace the time-consuming item-by-item negotiation tactics. The administration's intention was to produce deep and rapid reductions in tariffs, allowing the U.S. exports to penetrate the EEC's market area. Ultimately, the Kennedy Round produced a cut in tariffs that sent them to their lowest levels since the early 1930s, but in the case of U.S. export trade expansion a number of non-tariff restrictions remained (e.g. the EEC's Common Agricultural Policy, {CAP}). Besides the necessity to deal with the Western European economic challenge in 1962 the U.S. economic initiative for further international freer trade seemed to be actively gaining the foreground in world's economic matters from the success of Western Europe regional integration process.

4. Conclusion: The United States and Western Europe, 1961-1963

4.1. The End of Fundamental Harmony

The fundamental harmony or common harmony in interests between the United States and Western Europe was characterized by the underlying strength of Western Unity. Also, the emergence of the Western European regional unity seemed to provide a platform to further combine Western European and American interests. During the first decade of the Cold War, the concept of common interest between the United States and Western Europe was far more evident than in the early 1960s.

For the Western European nations, the concept of common interest meant vital security cooperation against the perceived Communist threat, even if the degree and limits of the American politico-military commitment were almost constantly debated. The discussion over the nature of American commitment was mainly a product of the lack of ideological cohesion in U.S. foreign policy. Even if U.S. actions mostly promoted Western unity and common foreign policy objectives, the conflicting events during the 1950s (e.g. the Korean War and the Suez crisis) shifted the focus of U.S. foreign policy primarily to the establishment of military alliances, instead of pursuing further ideas of deeper Atlantic unity, perhaps even a transatlantic unity. The debate continued during the 1960s for the open U.S. policy support for EEC, but open disparagement of EFTA.

For the United States, the strengthening of Western European regional unity was the final objective of a long-term postwar strategy that would ultimately prepare Western Europe to share the burdens of the Western Alliance and the Containment policy with the United States. This objective provided a political basis for U.S.

support for Western European regional unity. Economically, the U.S. strategy enforced economic interdependency across the North Atlantic, as well as, wanted to increase export opportunities for U.S. production. Once the Western European regional economic integration process began to achieve amazingly rapid economic results; it did not, succeed in realizing the expected stage of political unity during the 1950s.

Thus the concept of Western European regional unity supported by the United States achieved its economic objectives, but its political objectives remained below any expectations. This was especially true when Western Europe divided between the core-nations of the supranational EEC (the Six) and the British-led community of intergovernmental economic cooperation, EFTA. This division not only politically threatened continuous Western unity, but also created two rival European communities, the possibility of two customs unions, which was seen to lead to increased discrimination of U.S. products. This horrifying future scenario, together with U.S. domestic economic concerns, the perception of stronger Soviet challenge and increasing pluralism in world politics, caused a state of general confusion in U.S. foreign policy-making, not unknown to the present times.

The U.S. response to the above challenges, and the already partially accepted burden of the economic costs caused by EEC, resulted in a new policy that fully accepted the long-term political objectives of the postwar strategy but increased the importance of economic objectives in future U.S. foreign policy-making. The concept of domestic economic growth became the economic priority of the Kennedy administration. The adoption of Keynesian macroeconomic policies led to an increase in governmental expenses - a road towards a budget deficit, and the benefits of a balanced budget remained a strong ideological force in U.S. policy-making. This contradictory policy approach was seen within the government relations.
4.2. Atlantic Unity

The long-term U.S. foreign political objective of Western Unity finally led in the early 1960s to the re-emergence of the idea of an Atlantic Union, but it ran aground when faced with the increased political and economic independence of Western Europe. First, Britain was not successful in its bid for EEC membership. During membership negotiations Britain had asked the Kennedy administration whether EEC was to be seen as a step towards wider regional unity, or only as a separate institution that was not part of U.S. plans for Atlantic unity. The answer was vague, only to be answered later in 1962 when Kennedy proposed his Declaration of Interdependence between the United States and a United Europe. Western Europe, according to U.S. foreign policy, would thus become an equal partner within the Western Alliance, for both political and economic reasons. Second, the idea of a multinational nuclear force for Europe was a blow to European nationalism. Western Europe, especially French leadership, was not ready to relinquish its hopes of more independent position in world politics, especially when the American military commitment to Western Europe in time of crisis was considered at least ambivalent.

The Western European policy of the Kennedy administration, especially Kennedy’s activism in comparison to his predecessor, has been described as a conflict between activism and pragmatism. However, in economic policy Kennedy was a pragmatist. The adoption of Keynesian macroeconomics as the guide for domestic economic prosperity further encouraged the future conduct of Kennedy’s foreign economic policy. Even if the Kennedy Round of GATT negotiations increased the quest for freer trade, Keynesianism gave the Kennedy administration ideas on foreign trade, which allowed the existence of limited protectionism.

51 Thompson, K. - *Traditions and Values in Politics and Diplomacy*. pp. 259-270.
4.3. Western European independence

Studies in economics have tried to explain the "secret" for the record economic growth in postwar Western Europe. Explanations for European rapid growth have included the "catch-up" theory, high investment levels, wage moderation and export growth. But most importantly they include the influence of institutions, domestic and international, which created the necessary framework for sustained economic growth.52 The policy of the Eisenhower administration had reflected the new era of lesser European influence in world politics and had also effectively eradicated Western European beliefs in holding the balance between the two superpowers, the Third Force policy, especially in Britain.

Britain, the former global leader, reformulated its foreign policy towards strengthening the perceived "special relationship" with the United States and ultimately (in large part due to its economic concerns) led the Macmillan government to seek EEC membership in 1961. EEC itself increased the economic independence of Western Europe, and the sustained economic growth created a sense of new European power and influence through economic importance. Hence, the U.S. policy initiative to deepen North Atlantic unity was met with a growing sense of national pride, primarily in France.

According to U.S. concerns, during the late 1950s and early 1960s Western European regional integration was starting to direct itself towards the state of an inward-looking fortress, Fortress Europe, protected by a common external tariff and increased regulation. The Kennedy foreign economic policy aimed to stop this development, but failed in its efforts to exercise a determined U.S. influence in directing Western European regional unity. There

emerged a sense of conflict not only in the common interest or fundamental harmony, but also an ideological conflict concerning what were perceived as the ultimate objectives of regional unity. The question over whether economic regionalism was or is compatible with international trade liberalization emerged. The negative effects of regional economic integration were seen more important to the future of U.S. economy.

4.4. Economic Nationalism

The concept of economic and political interdependency, especially between the United States and Western Europe, and the volatile issue of American hegemony, have been primary questions in researching U.S. postwar international relations. In the early 1960s, the freedom of action which the United States had formerly possessed in designing the postwar international order started to disappear. Other nations, especially in Western Europe, expressed their own visions of independence i.e. political and economic nationalism increased. This development did not exclude the United States. A vision of American economic nationalism began to break into the surface. Even if, the idea of economic nationalism was seen among many people as a relic of pre-World War II history, yet it had existed and was ready to gain more importance. The objective of U.S. economic nationalism during the 1960s was to protect domestic production from the impact of foreign imports.

In the 1960s, the liberal international economic order had reached its peak at the Kennedy Round of GATT negotiations. After the Kennedy Round there existed a new international setting that paved way for economic nationalism. The decline of the liberal international system has been seen to run parallel with the decline of American postwar hegemony. The United States shared the same characteristics as other nations in preserving their national economic interests, but despite this fact the United States due to its home market and dominance in world economics, could adopt policies that were seen to cause disadvantageous effects to the U.S. economy. The common explanation is that the U.S. saw itself ideologically,
politically and economically strong enough to maintain its domestic economic welfare. U.S. dependency on export trade was considerably less influential than for its main competitors. The Kennedy administration, after adopting a new economic policy in order to preserve U.S. dominance, saw expanded export trade capability as one of the crucial elements of sustainable domestic economic growth. Some economists also saw the ideas of full employment and economic growth as complementary. If Western European nations had succeeded in maintaining almost full employment and still sustained a remarkable postwar growth rate, the United States needed not only to follow their macroeconomic example, but also finally implement the Keynesian objectives of the Employment Act of 1946.53

Due to the increasing conflict of interests between the United States and Western Europe, the idea of regional economic integration, regional unity, suffered a setback in the United States during the early 1960s, especially in regards to agricultural commodity trade conflicts and the French-led plans for diverting Western European integration towards a form which fought against all U.S. ideas for Western European future. During the following decades, the U.S.-EEC economic relations seemed to focus only on itemized trade and tariff issues. At the creation of NAFTA, the United States again accepted the idea of regional unity as a solution to preserve American competitiveness and to also secure a vast market area within the Western Hemisphere. However, this North American integration process has carefully followed the model of market-led integration, instead of adopting too many lessons from the European institutional model of regional integration.
