

SPEECH BY THE RT. HON. SIR CHRISTOPHER SOAMES
VICE-PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
AT THE EUROPEAN MANAGEMENT SYMPOSIUM, DAVOS, SWITZERLAND.

* *
*

MONDAY 2 FEBRUARY 1976

THE EUROPEAN COMMUNITY IN A CHANGING WORLD

Mr Chairman,

May I begin by saying what a pleasure it is for me to be here today, to have the opportunity to address such a distinguished gathering, and in particular to speak under your chairmanship.

+ +
+

So far in this Symposium you have been talking about the longer-term prospects for European business and the broad trends which affect its future - such questions as the impact of technology upon society, the role of free enterprise, and the need for economic growth. My remarks to you are intended to stand at a point of transition to the consideration of the more immediate problems which confront you as managers. And indeed it is appropriate that you should take the current debate about the character and principles of a new international order as the focus of this transition in your discussions. For it is in the context of the debate about a new international order that the long-term challenges which face the world economy - to say nothing of the world's political structures - are going to be made concrete. And it is also in that context that we are being brought up against the hard edge of practical decisions.

It is important, however, that in all this we should keep clear before our minds the wider issues of a more philosophical character that are at stake. Generalities without particulars make a windy diet: but particulars without a context to give them significance also make an unsatisfactory meal - and one in which there might be a danger of swallowing too much.

How then can we best understand the present juncture in world affairs and the challenges which the future is likely to pose?

Here I would suggest to you what I believe is a revealing analogy. Take the recent historical experience of our own advanced industrial societies here in Europe. What can we learn from that experience in seeking to understand the general tendency of relations between the developing countries and the developed world, and also between the societies which make up the developed world?

The main features of the recent history of Western Europe might be summed up in two propositions. The emergence and growth of mass democracy has led to the increased social direction and management of economic life. And the emergence and growth of industry has led to increased international economic interdependence and integration. These great historical processes have transformed the ancient societies of Europe over the past two hundred years, and they are now reproducing themselves on a global canvas throughout the developing world. The basis of the analogy lies in the similarity between

/these processes

these processes and the emergence of a large number of independent countries in the Third World and of our ever-increasing economic interdependence with them.

+ +

+

The parallels are striking - as a witness the United Nations. And this new universal suffrage of the nations has brought with it an increasingly insistent and powerful pressure for changes in the economic sphere, just as it has at the level of our own societies. It is something of a mirror image. Just as it has for long been a feature within our national societies, so now there is increasingly at international level a widespread demand for the redistribution of wealth and for the deliberate planning and management of economic processes so as to secure a greater share for the poor in the growth of prosperity.

As we in the rich world of the North face up to these demands from the poor countries of the South, what lessons can we apply from our own historical experience?

The first lesson is, surely, that it is both impossible and wrong to resist the pressure of the less well off for a better share in the good things of this life. As Churchill once said: "The earth is a generous mother - there is sufficient for all. Let us go forward together." The fact of the matter is that quite apart from any considerations of morality there is the question of interdependence. In the world today all our societies are increasingly interdependent: the poor nations benefit from the expansion of the rich economies, and suffer when they stagnate, and the rich nations need the markets of the poor. There can be no doubt about the extent to which the stability and capacity for peaceful progress, both of our own societies and of world society as a whole, depend upon the cooperation of the great masses of people upon whose consent our systems are ultimately based. This is the lesson of all the great social conflicts of recent European history. And although it may as yet be difficult for us to conceive the specific forms that a similar conflict might take at the level of the relations between the rich nations and the poor, we can certainly apply something from our own experience in the avoidance or resolution of such antagonisms.

But let us not view the matter in too negative a spirit - as if it were a question of finding the least that we can grudgingly give away in the fear that if we do not, yet more might be taken away from us. In the experience of our societies the direct result of the political pressure for a better deal has been the expansion of the purchasing power of the less well off. And we have learned that this expansion of consumer purchasing power is an enormously constructive engine of prosperity and growth. Further - this expansion can be nourished and sustained by the deliberate management of demand and by a rational approach to institutional reform and structural change. What is required here, and what our experience shows to be possible of attainment, is a wide measure of consensus about where we are going and how we should get there, and a climate of cooperation rather than conflict and confrontation.

/In short

In short, postwar developments in the industrialised world and especially in the Community afford us grounds for reasoned hope. We will no doubt never recapture the first fine careless rapture of the two decades after the war with the phenomenal growth that took place, at least in our societies. And it is of course true that we have since been brought hard up against the dangers of inflation and the intractability of deep-rooted social problems and the limits that are set upon the availability of scarce resources. But we know now that, if we are prepared to work together in observing the rules, economic life need not be a zero-sum game, and that - at least up to a point - the rule-book can be altered to suit the interests and desires of the participants. Europe's remarkable post-war successes in the management of society - and viewed in the light of history our success over the past three decades has been remarkable - are not the accidents of a unique time and place. They support conclusions of universal and enduring validity concerning the means to economic and social progress.

There is no reason why these conclusions - especially as we have formulated them in the Community - should not be applied with equal success in the wider framework of world society as a whole.

A further lesson is the importance of thinking about economic and social progress in dynamic rather than in static terms. To assume that the sum of man's riches is limited to the current possessions of the better-off is the mistake made by most of the advocates and many of the opponents of the redistribution of wealth, both within our own societies and in the context of relations between the rich nations and the poor.

I yield to no one in the conviction that the key to a new distribution of wealth more favourable to the less well-off lies in growth and the creation of new wealth, rather than simply in the redistribution of existing wealth. But let there be no doubt that we cannot go on with the situation which prevailed in the 1950s and 1960s - years when our prosperity and growth in the industrialised world saw a widening rather than a narrowing of the gap between the rich nations and the poor. This is no more acceptable in world terms than we have found it to be in our societies.

Let me now sum up the lessons which our historical experience should lead us to apply to the relationship between the rich North and the poor South.

First: we should not resist the pressure for change, but rather seek to ensure that it flows into constructive channels. Here Europe's experience in managing the same kind of forces of change should enable it to play a crucial role.

Second: that if we do adopt this approach we may be surprised by our success and by the extent to which we can transform the pressure for change into a powerful force for prosperity and growth.

Third: that we have less than we think to fear and more to hope for from the application in international economic relations of a more systematic and politically sensitive management policy.

Fourth: that such a policy can only be developed upon a basis of consent and cooperation engaging the greatest possible range of participants.

Fifth: that the object of our policy must be the promotion of faster growth, accompanied by the wider and more equitable distribution of the wealth that flows from it.

History affords us lessons of equal validity, I believe, when we pass from the problem of North-South relations to the problems that arise in the relations between the advanced industrial societies themselves.

These lessons stem not so much from the parallels between the democratisation of our own societies and the present growth of democracy in international relations, as from the parallels between our experience of the industrialisation and integration of our economies and the similar processes which are now working themselves out in the international economy of the industrialised world.

The industrial economy is built upon the gains in productivity which flow from investment, technology and increasing specialization. The forces of sustained growth can, however, only be set free under political and social conditions which favour the integration of markets and factors of production. And the struggle to realise such conditions has been a consistent feature of the history of Europe over the two centuries since the beginning of the industrial revolution.

In the historical experience of Europe, this struggle has gone through three phases. In the first phase, the focus of integration was the nation state. All over Europe local and purely regional markets and factors of production were broken open and unified within the framework of separate national economies. These were presided over by national governments with a monopoly of regulatory powers in the economic sphere and of the right to create money. For a time these purely national authorities succeeded very well in their task of ensuring the orderly and stable conditions which were necessary for the progress of economic integration and growth.

But the dynamism of the industrial process was spilling over the frontiers of the nation states by the end of the last century. World markets were developed and the resources of the most remote parts of the globe began to be brought into play. In this second phase, the focus of integration expanded from the nation state to the imperial state. Rival empires emerged, each bringing within a single framework the economies of the most diverse territories, and each reproducing on a gigantic scale the unifying and centralizing characteristics of the nation state, especially in the economic sphere.

But in its turn this system of integration through empire also proved inadequate, not only because of the natural desire for independence, but also because instability and a tendency to conflict were inherent in the existence of a set of independent centres of power each jealously bent on guarding its own sovereignty.

Since the system of rival imperialisms met its political bankruptcy, the world economy, and in particular the economy of the European Community, has been organised around an alternative conception of international economic relations.

Our approach since Bretton Woods and the Paris and Rome Treaties has been founded upon the liberalization of trade and the dismantling of inter-state barriers in every field. Markets and factors of production previously integrated vertically in separate national or imperial systems have been integrated horizontally on a transnational and transcontinental basis. This has gone farthest within the Community. In the post-war years the ghost of autarchy,

at least within Western Europe, has been more or less firmly laid, the division of labour between the industrial societies has become increasingly sophisticated, and the volume of international trade has grown to unparalleled dimensions. These achievements have made possible a vast increase in the productivity and standard of living of the industrialised world.

But over the years it has become increasingly doubtful whether the successes wrought in Europe and across the world by this system can be sustained without the agreement of governments to carry this cooperation very much further than they have in the past been willing to go. Hence our insistence on the philosophy of interdependence.

Within the Community we have reached a point at which further economic integration requires something more positive than the mere removal of obstacles at the frontiers. And our experience of the recession of the past two years supports the conclusion that the world economy has reached a critical stage of interdependence at which we need to move to a higher level of joint management of our international economic relations.

x

x

x

If we accept this broad historical scheme, what lessons are we to draw from it for our future policy?

To my mind the first conclusion we must draw concerns the importance of a political structure adapted to the requirements of economic progress. It is true that industrial growth is a dynamic force flowing from many sources quite remote from the arena of politics. But it can only realise the full potential when it operates within an orderly and above all a relevant framework of disciplines and government. Such a framework has been supplied successively, first by the nation state, then by the imperial systems, and now in our time it is to a system of international disciplines, restraint, cooperation and agreement that we must look. At each stage it has had a crucially important part to play.

A second conclusion concerns the nature and functions of that framework. Although we have made immense strides towards international agreement and cooperation, especially in the Community, we have still not made much progress beyond a rather negative conception of the purposes and limits of our working together. Ninety per cent of international agreement today is designed to deal with the consequences of the division of the world among sovereign states. The positive functions of economic management are still by and large carried out where they were placed in the 19th century, at the level of the nation state. I have no doubt that if the industrial world and especially the Community is to get the full advantages of the policy of international cooperation upon which we embarked after the war, we must be prepared to go further down the path of integration. We must begin to think of Europe as a single economy, not as a set of distinct national economies, however closely linked. And indeed we must also recognise the intimacy of the relationship which exists

between the European economy and the world economy as a whole.

Our experience in the past also yields a third conclusion - that there is in nature an ultimate economic logic which cannot be over-ridden merely by political decisions. It is, for instance, one of the features of that economic logic that in the long run investment and growth will not occur where there is no freedom to make profits and to enjoy them, or where the prospect of political stability is lacking.

And, to take another economic truism that seems nowadays to receive insufficient recognition, there is a natural interdependence between buyer and seller, whether in the labour market or in the market for commodities: the buyer must go without if he cannot afford to pay the seller's price - but if the seller cannot get his price he too must go without. So both seller and buyer are worse off if the price is set arbitrarily or too high - which is all too often the effect of a surfeit of political interference or insufficient respect for the realities and indeed the vagaries of the market. These old lessons are now having to be painfully learned again, and it is fundamental to the future health of the world economy that the right conclusions should now be drawn.

x

x

x

Mr. Chairman: the challenges which face the Community and the world are rooted in our economic situation. But they are not just economic challenges. Our problem is not one of economics: it is one of politics. And as such it is ultimately a challenge of the same type whether it is being posed in the economic relations between the developing countries of the "Third World" and the industrialised countries of the "First World", or whether it concerns the relationship between the industrialised nations themselves.

Our relationship with the developing countries is being cast in a new political framework by the demands of the Third World for what they call a "New International Economic Order", and by our attempts to find a new consensus which comes to grips with those demands and which recognises the fundamental interdependence of our economies. A new balance of rights and responsibilities is being called for, and our task is to see that it is a proper balance in which the rights are not all on one side and the responsibilities all on the other. An improved framework is also required for our mutual and even more radically interdependent relations within the industrialised "First World". On all sides the distinction between international and national politics is dissolving, and economic issues have now become the very stuff of international politics.

To overcome the tensions inherent in this situation, we will need to develop new national and international mechanisms for weighing the implications of domestic political and economic decisions for the international economy as a whole. We will have to develop a framework for the joint management of our distinct but convergent policies. We will have to build up new reserves of mutual trust and confidence. And as an essential feature of all this, we will need to ensure that public opinion is much better informed on what are the new realities of today.

No one should imagine that it is consideration of our economic well-

/being

being alone that should prompt our efforts'. For the fact is that in the present age, accustomed as we are to an ever-expanding horizon of material expectations, the link between economic well-being and a tranquil and self-confident political order is more intimate than perhaps ever before in history.

During the period of economic crisis before the Second World War, it looked to many as if the mainspring of our free and democratic way of life in the West had been broken: as the barriers went up on every side it seemed that the world was in the grip of economic forces - and therefore, eventually, of political forces - beyond its control. Out of it all came the war. But in the end the democracies found the political will, the imagination and the strength to meet the challenges which faced them. And the consequence has been that over the past thirty years here in Europe and throughout the Western world the open economy, the open society, has once more repeatedly given proof of its superior humanity, its superior dynamism and creative power.

Though the challenge of change requires us to be infinitely adaptable, nimble in thought and flexible in policy, these remain the values which must continue to guide us.