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EUROPEAN INTEGRATION
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At a moment when the European Community has been visibly marking time for several years - years of severe economic difficulty for its member States, it must be said - it is understandable and right that those concerned with the life of this Community should be turning their minds to the question of how it can re-acquire the momentum necessary to carry it forward towards the objectives of its founders. This has been the theme of many speeches in the last couple of years and I cannot promise to add much to this continuing debate. It seemed to me, however, that it might be worthwhile at this point in time to look back at the Rome Treaty in the light of hindsight, with a view to identifying its strengths and weaknesses, for it is within the framework of this Treaty with all its merits and defects, that progress has to be envisaged - even progress involving an amendment to the Treaty itself.

Those who drafted this document 20 years ago showed remarkable judgment as to the obstacles to be overcome in moving towards economic and political integration of the member States and remarkable foresight as to the kind of structure that could be established which would have within itself the leverage necessary to secure continuing progress towards that goal over a period of many years, and in the face of inevitable obstacles. It was this judgment and this foresight that gave to the Community the momentum that carried it through the first 15 years of its existence and that gave it the strength to survive, with minimal damage to its fabric, a recession whose origins and whose magnitude were certainly not conceivable to politicians and planners two decades ago.

Those who drafted the Rome Treaty had learned much from the experience of the previous seven years, which had seen the failure of the Council of Europe to develop along the lines many of its founders had expected, and had seen the European Defence Community initiative dissolve in the face of opposition in certain member States. From these events they drew the conclusion that progress towards political integration required as a condition precedent a solid basis of economic integration. They planned accordingly, and to this we owe the extreme concentration of the Rome Treaty on economic matters and its virtual silence on political aspects of European integration.

They were right in starting with the idea of a customs union, not confined simply to the freeing of trade and the establishment of a common external tariff, but also incorporating stringent provisions designed to secure the elimination of non-tariff barriers to trade, whether these took the form of cartels, monopolies, State aid, or obstacles to the free movement of the factors of production. They were right also in their conviction that, given the existence of managed agricultural markets in each of the individual member countries, the establishment of such a customs union must be accompanied by the establishment of a Common Agricultural Policy based on a single price structure, with necessary price supports, and free movement of farm products within the area of the proposed Community. They calculated that if such a customs union and single agricultural market could be established that the benefits to the participants in terms of widening of their home markets many times over would make this measure of economic integration irreversible.

Where it was not possible at that time to foresee in detail the development of economic integration, they had the wisdom to devise the principle of an

agreement to agree by a fixed deadline - a system which has proved itself over and over again in the history of the development of the Community albeit with some, usually minor, time modifications, that have involved 'stopping the clock' at critical moments.

The institutional structure which they invented also contained a number of elements which have proved of crucial importance in maintaining throughout so much of the following two decades the momentum of the development of the Community. They guessed that the enthusiasm of governments for economic and political integration, although it might be sufficiently strong in the mid-1950s to persuade six governments to sign the Rome Treaty, might wane in the years that followed, and that to leave the initiative in respect of the many detailed developments that would have to take place during the period of evolution of the Community exclusively to member governments subjected to domestic pressures would be dangerous and possibly fatal. It was this insight that led to the development of the concept of a European Commission, independent of member governments and having an exclusive power of initiative subject only to the right of member governments to request the Commission to study matters considered desirable for the attainment of common objectives and make proposals on them.

They saw, too, that while at that time it would be impossible to get agreement on a directly elected European Parliament with full legislative powers and control over decisions of the Executive, nevertheless if they could get a Consultative Assembly established, consisting of politicians from member countries, this Assembly of politicians would in time start to insist both on the importance of deriving its mandate directly from the peoples of Europe

and also on the importance of gaining the kind of powers that any self-respecting Parliament in the 20th century must certainly have.

Finally, on the institutional side, they saw the danger that national Courts might interpret this Treaty in different ways and they met this by giving to the Court of Justice of the European Community the final power of interpretation of the Treaty, a power which could bind national governments.

All this was well conceived, well planned and well executed. Inevitably, however, the structure thus established had weaknesses that could not then be foreseen, or which, even if foreseen at that time, could not be remedied given the state of public opinion in the member countries whose governments were to be asked to sign this Treaty of economic integration. It is worthwhile, perhaps, to list some of these weaknesses, because it is these deficiencies that have contributed, in very difficult economic circumstances, it is true, to the slowing-down of the momentum of the Community and to growing doubts as to its continuing internal dynamism. It is these deficiencies that must be overcome if this loss of momentum is to prove temporary and is not to become a permanent source of weakness.

First of all, although the provisions for economic integration in the Rome Treaty were well-judged as conditions precedent to the development of a Community that would be fully integrated both economically and politically, they were not of themselves sufficiently fundamental in their impact in member countries to ensure that complete economic integration would be achieved. The Treaty is notably weak in the section on economic policy. Save in relation to commercial policy, this section is largely confined to measures

designed to prevent back-sliding in respect of the progress to be achieved with regard to the customs union, while allowing sufficient flexibility for member countries to meet and deal with conjunctural problems.

There is a notable absence of the kind of provisions with respect to the coordination of economic policies in member countries that would be necessary if full economic integration were to be achieved and there is an absence of adequate provisions with respect to monetary policy. Similarly with respect to the problem of harmonising divergences in the stage of economic development achieved in member countries and dealing with the very different kinds of regional problems that exist within member countries, the Treaty is clearly deficient. Indeed regional policy appears only as a possible exception to a competition policy designed to secure the removal of inequalities in respect of the provision of State aid for industrial development.

Another deficiency on the economic policy side was the implied assumption that seems to run through the Treaty, that exchange rate stability could be readily maintained between member countries and that in some undefined way the process of the establishment of the customs union and the elimination of the non-tariff barriers to trade, would ensure uniformity in inflation rates and the maintenance of currency parities. Curiously enough, this implied assumption which to us today seems so extraordinary, appeared during the first decade of the existence of the Community to be validated by actual experience, for during this period there were virtually no exchange rate changes of significance as between member States.

This assumption of monetary stability within the Community underlay in particular the concept of a common price system for agricultural products within the

managed market which the Treaty proposed to establish. Indeed I can recall less than a decade ago a seminar at which a senior Commission official explained that exchange rate stability within the Community was in effect guaranteed because the Common Agricultural Policy, which was of such importance to member States, would be hit with the force of an atomic explosion should divergences occur between the exchange rates of member States - a curious inversion of economic logic.

There were also deficiencies in the institutional structure that had been so carefully planned by the founders of the Community. While the concept of an independent Commission with an exclusive power of initiative proved extremely valuable during the first decade or so of the life of the Community, there was an inherent defect in this arrangement - the fact that the members of the Commission are appointed in common accord by member governments which, given the natural desire of each member government to control the appointment of its own nominee, or nominees, proved unduly prone to become an exercise in mutual back-scratching - each country carefully refraining from interfering with its partners' choices in the hopes of being left completely free to choose its own Commissioners. The absence of any role for the Assembly in the appointment of the Commission, and the limitation of the Assembly's Power of control over the Commission to a power of dismissal of the whole Commission, unlikely in practice ever to be utilised, has left member governments with an excessive degree of individual control over their own appointments. This was, perhaps, bound over a period of time to weaken the Commission's sense of independence, and its ability to exercise its power of initiative without regard to national political considerations.

One may hope that the recent decision to nominate the President of The Commission in advance of other members, as proposed by my Prime Minister last November and to concede to him a consultative role in relation to the choice

His colleagues, will in some measure mitigate this defect.

The founders of the Community were also over-optimistic in expecting that the Consultative Assembly would assert itself within a relatively short time in respect of matters such as direct elections and the acquisition of legislative powers. Something like 15 years elapsed before the Assembly demanded, with sufficient vigour to ensure success, an effective role in Community budget-making and it has taken almost 20 years for direct elections to become a real issue. Even today, two decades after the foundation of the Community, the question of legislative powers has still to come under serious discussion.

There are finally several other more general criticisms that might be made of the Treaty. First, the emphasis on harmonisation of policies with a view to eliminating non-tariff barriers to trade and to ensuring a common basis for the raising of 'own resources' was perhaps excessive, conjuring up a picture of a future Community more uniform in certain respects even than the mono-cultural United States - whereas in fact a community of States with such different histories, traditions, languages, cultures and senses of identity could never conceivably approximate in this respect to the United States of America, never mind go beyond that country in the measure of uniformity of State economic laws.

What is at issue here is not just the concept of 'Community beer' or the 'Community loaf', which have in fact been abandoned; there is also the provision designed to limit an extension of zero-rating of VAT, and the evident intention to harmonise VAT rates despite the inappropriateness of uniform tax rates in a Community of such diverse cultural and social diversity. This approach conjures up a nightmare of a Community in which for example taxation of alcohol would be uniform, despite the evident social need for levels of taxation of alcohol varying in relation to social habits in member

countries and different national elasticities of demand for this product!

Another general criticism of the Rome Treaty, which has often been made, especially by Socialists, is that it appears to rely excessively, and perhaps unrealistically, on liberal economic theory. The concept of regulating economic activity through the competitive process runs throughout the Treaty, even in respect of areas where States whose governments though far from socialist would not be happy to rely entirely on this process and would feel the need for an intervention by the State in the general social interest.

Such an analysis of what seem to me to be the strengths and weaknesses of the Rome Treaty is, I believe, a necessary exercise if we are to plan a constructive way ahead for the Community in the period up until the end of the present economic recession in Europe - although of course the foregoing comments represent an entirely personal attempt at this. We must be clear-sighted about the deficiencies of the Treaty, seeking in the immediate future to minimise their impact on future progress, and in the longer term to prepare amendments to the Treaty which will provide a solid basis for progress during the 1980s.

From where can we expect the impetus to come for further progress within the framework of the existing Treaty, and for an appropriate amendment of the Treaty at a later stage? One could visualise a number of different sources of dynamism both in the medium-term and in the longer term, including, (in theory at least!) one or more of the following:-

- the emergence of a consensus amongst member governments as to the need to make rapid progress towards full economic integration;

- further measures of economic integration forced on reluctant governments by the urgent need to secure economic coherence as between member States;
- an impetus coming from outside, arising from the external relations of the Community with other States;
- or initiatives from a directly-elected parliament which enjoys a sense of drawing its authority from the peoples of Europe, who may be further ahead than governments in their willingness to accept a fuller measure of integration in the Community.

The experience of recent years does not suggest that governments left to themselves are likely in the foreseeable future to become a major source of European dynamism. While the governments of certain countries have retained a sense of commitment towards the ultimate goal of European Union, at any given time there are liable to be individual governments unenthusiastic about changes in this direction. This was true when there were six member States and, inevitably - even if only in arithmetic terms! - this is likely to be even more true when nine governments are involved, or possibly 10, 11 or 12. We have to face the fact, for example, that since the very early days of the Community public and political opinion in France have tended to be sceptical about further developments in a supra-national direction; that Britain, an important new member, seems to share much of this scepticism; and that Germany, in spite of its continuing commitment to a greater measure of European integration, has become preoccupied with domestic economic stability and the control of inflation to an extent that its policies within the Community tend in practice to be somewhat negative so far as the development of new policies is concerned.

Of course this picture may change in time, although we should be clearly unwise to sit back and wait for the re-emergence of the kind of situation that existed in Europe at a certain stage in the 1950s when in all the six member countries there were governments strongly committed to European economic and political integration, involving the transfer of some important powers to supra-national European institutions.

A potentially important source of dynamism for the Community may well prove to be the area of economic policy-making. Whatever illusions may have existed in the late 1950s and throughout much of the 1960s as to the efficacy of freer trade as a weapon to secure exchange rate stability, such illusions have certainly been shattered in recent years. It is now clear, not alone that the degree of integration so far achieved is inadequate to ensure a measure of exchange rate stability between member States, but that this measure of integration is itself threatened by the absence of such stability.

To some degree this reflects the failure of the Rome Treaty to envisage a sufficiently positive role for the European institutions in the formulation and evolution of economic policies within the Community. But the problem is more fundamental than this. It is not just that there does not exist a policy-making centre within the Community capable of coordinating national economic policies - the problem is that national governments have in widely varying degrees found it difficult to implement anti-inflationary policies especially in the face of unrealistic public pressures to continue the process of improving real living standards in a period of actual economic decline.

In the face of the economic pressures of the last few years the national economic policies of member States have in fact diverged much more markedly

than at any time since the immediate post-War period. Some countries have been able to control inflationary pressures fairly tightly while others have found it impossible to do so. These different outcomes of what is certainly a common wish to control inflation derive from a number of differences between member States which have proved more important than had been perhaps envisaged in earlier years. These include differences in the stages of economic development of member States, which quite properly require the application of different economic policies; differences in the degree to which member States are dependent on external trade, oscillations in the volume and price elements of which have been de-stabilising factors in recent years; differences in the institutional structures of member States, in particular in the trade union sector; and differences in the historical experience of member countries so far as inflation is concerned. Where, as in the case of Germany, a member State is well favoured in all four respects, it can achieve without undue difficulty a very low rate of inflation indeed. Where on the other hand a member State is less well placed in respect of these four aspects of the problem, as is I think the case with my own country, the rate of inflation is liable to be very much higher.

Divergences in inflation rates, when they are as marked as they have been in recent times under the pressure of an unprecedented world recession, have an inevitable impact upon exchange rate stability, and this in turn can threaten the cohesion of the Community - most obviously that of the Common Agricultural Policy.

In this situation the emergence of a common Community economic policy is clearly fraught with difficulty, and is scarcely likely to emerge as a

positive dynamic force favouring economic and political integration unless a number of preconditions are met. These preconditions would necessarily include mutual assistance on an extensive scale, running beyond anything contemplated at present by the Community, within which the scale of net transfers of resources between member States have hitherto been minuscule by comparison with what would be required in order to achieve a convergence of national economic policies as a basis for a Community economic policy.

The problems in this area remain immense and while their solution is a precondition for the ultimate achievement of economic and political integration we cannot, I think, expect the main lead to come from this source in the foreseeable future although it is of vital importance that some progress be made in this area if the general cohesion of the Community, at the stage it has now reached, is not to be threatened.

A third possible source of impetus towards economic and political integration could be the relationship between the Community and the rest of the world. Certainly a fair share of the original impetus for the establishment of the Community came from this source, as European countries sought to recover a measure of independence of action and control over their own affairs in the early post-War period when they found themselves for the first time in a world dominated by two super powers. The pressures of those years no longer exist on the same scale, however, and to the extent that they do exist they seem to exert a less powerful attraction to the imaginations of Community citizens.

On the other hand one cannot fail to be struck by the contrast between the immense power of attraction which the Community as an economic unit exerts

in world trade, and the internal weaknesses of the Community as we see it from inside. At certain periods, moreover, the Community has shown itself to be a potent force for progress in world economic development. This was true, for example, of the years 1974 and 1975 when the Community took the lead in seeking to avoid confrontation with the countries of the Third World and to establish a negotiating structure between the industrialised and developing countries. In the aftermath of the UNCTAD Conference at Nairobi, and with the Paris CIEC Conference stalemated, the Community has lost much of what it had in this way gained in world respect and prestige in the two preceding years - but the loss is not irretrievable, and one should not discount the potential ability of the Community to play such a positive role again in the future.

Nevertheless, the Community is a long way from the stage at which its role in world affairs would become a source of serious pressure on it to achieve a greater degree of economic and political cohesion, although one can expect some pressure to come from this source in the years ahead.

For many people the brightest prospect at present for a new break-through seems to be offered by the European Parliament, because of the expectation that when such a Parliament is directly elected, it will begin to assert itself in a manner analogous to that in which national Parliaments in member countries have at various times in the past asserted themselves, vis-à-vis the executive power in their States. It would probably be unwise, however, to count on this process operating very rapidly, in the immediate aftermath of the first direct election. Indeed in the short run at least direct elections may modify in some degree the 'European' orientation of the existing Parliament, whose membership at present, because of the manner in which its representatives are selected by their national parliaments, may be drawn in disproportionate

measure from amongst national parliamentarians who are on average more 'European' in their general orientation than their colleagues who remain solely involved in their national parliaments. It is certain, moreover, that there will be resistance from some quarters to an early extension to the legislative powers of parliament; It has even been suggested by some that it might be desirable that the directly-elected Parliament should not be too closely proportionally representative of member States lest such proportionality might increase its belief in its own right to participate fully in the legislative process in the Community!

Nevertheless, having entered these caveats it remains true, I believe, that in the foreseeable future, pressure from this source may prove relatively effective in at least maintaining the momentum of the development of the Community, and over a somewhat longer time-scale could prove a major dynamic force.

What emerges from this brief analysis is that there is no clear or simple way by which the Community will recover its dynamism in the period immediately ahead; there is no panacea. Instead a complex inter-action of different forces, each playing some part in the process, is likely to create changes in attitudes, possibly fairly imperceptibly, and possibly over a period of a number of years. What one might hope to see might be a situation in which some pressure will come on the Community from a perception of the importance of the role it might play in world economic affairs if it could achieve a greater measure of policy coherence; a movement towards greater internal economic coherence would take place under the pressure of the threat of disintegration posed by the failure to achieve such progress; while at the same time direct elections to a European Parliament, and the eventual reaction

of that Parliament to the new authority it would thus secure, might put the other institutions, and above all the Council of Ministers, under pressure gradually to accept changes in the institutional relationships which would provide a firmer basis for further progress. The inter-action between different developments of this kind could then, over a period of years, put pressure on governments to adopt a more positive approach towards further economic and political integration.

This is unlikely to happen, however, unless public opinion in member States demands such a development and this in turn can only come about if public opinion regains confidence in the potential of the Community to serve the interests of the peoples of Europe. And such a development in public opinion itself depends upon a measure of progress being achieved and perhaps especially upon the impact of direct elections on public opinion in member States.

The prospect then for the years ahead is, hopefully, one of a complex inter-play of forces, undramatic in character, which over a period of a number of years could modify significantly, but perhaps very gradually, the present negative attitudes towards further economic and political integration. At some point in time these developments could require a fairly radical review of the Rome Treaty so that, perhaps by its 30th birthday, it might be adapted to the needs of the closing years of the century.

It would then be for a new generation of politicians to build on this framework, possibly by the end of the century, a United States of Europe that would provide its member countries with the two tiers of government - sub-continental and

national - that would be necessary for Western Europe to play an effective role thereafter.

It is not too soon for us to begin to consider, more seriously than we have hitherto, just what kinds of decision could most appropriately be taken at a European level in such a structure of government, and what kinds of decision must remain at the level of the national governments, whose essential role, above all as the guardians of the cultural identities of their peoples, will survive indefinitely.

The decision-making balance between these two tiers will not be the same as in existing federations which are broadly speaking mono-cultural in character, e.g. the Federal Republic of Germany, the United States of America, the Commonwealth of Australia, etc. For in those States it is at the higher level of government that the function of preserving the cultural identity of the nation is exercised, in addition to the crucial economic decision-making and resource-allocation functions. In the United States of Europe of the future the building blocks of the nation States will retain much more of their present roles, especially in the social and cultural areas, devolving upwards only those economic and political functions which could no longer, in the world of the 21st century, be exercised effectively at the nation-State level.

That is why any analogy between the political structure we are endeavouring to create in Europe and federal structures that already exist in the world, is inherently defective. The European experiment is sui generis; it has no precedents to go on; it is therefore a uniquely complex and difficult experiment and one which common sense tells us could not conceivably reach its full fruition in less than half a century from its initiation, given the

unique character of what is being attempted. Perhaps the founders of the Community thought that their objectives could be achieved in a shorter time. If so they were wrong; they made inadequate allowance for the magnitude of the task they were undertaking and for the extreme difficulty involved in creating a completely new type of political unit in world society. In the perspective of history, half a century - much less than the time-span of an average human life - is a relatively short space of time for the accomplishment of the task which the inspired founders of the Community set themselves in the grim aftermath of the Second World War.