

The President

ADDRESS BY THE RIGHT HON ROY JENKINS, PRESIDENT
OF THE COMMISSION OF THE EUROPEAN COMMUNITIES to

INDUSTRIE UND HANDELSKAMMER, BERLIN

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Herr Präsident, Herr Regierender Bürgermeister,
meine Damen und Herren.

I have frequently visited Berlin. It is always a stimulus and mostly, except when the sombre challenges you have faced make inappropriate such a word, a great pleasure. I am told that there is an old saying that "Berlin ist eine Reise wert". That is in my view a notable understatement. I always appreciate the special and indomitable vitality of your city.

On previous occasions I came as a British Minister or Parliamentarian; this time I come as President of the Commission of the European Communities, and in doing so, after visits by my predecessors in office, I continue an already well established tradition.

/ Berlin is not only

Berlin is not only a metropolis and West Berlin a major centre of business in Germany, but also the fourth largest city in the Community and one of its most outstanding cultural and scientific centres. Since coming into office, I have had the opportunity of a wide range of visits to different parts of the Community. I attach considerable importance to these visits, because a great part of the strength of Europe's future lies in the richness and diversity of its regions and in the people who live, work and do business in them.

I should like to talk to you this evening about some of the principal issues that are now facing the European Communities. Let me start with a moment of retrospect : the construction of Europe in the fifties and sixties was born out of the radical aspirations of the people channelled by the courageous leadership of a few statesmen, and as a conscious rejection of the past, as a rejection of two European civil wars in this century and of the economic and political nationalism which led to them. This determined and imaginative thrust towards unity opened up hitherto rigid national frontiers and created a real Common Market. It was a revolutionary framework. It underpinned the re-establishment of Europe's economic wealth and the well-being of our society. An unique historic chance was taken and turned to the benefit of Europe as a whole.

/ In the late sixties

In the late sixties and early seventies some of the momentum was lost, despite a sense of real potential. Relatively favourable economic conditions seemed to provide a soft pillow for what can now, with hindsight, be seen as a false surge to European integration. It established, understandably at the time, the idea that progress towards the ambitious aim of economic and monetary union would come about painlessly more or less automatically. But the ideas of automatic action proved illusory. We have learned from that experience. Easy times can certainly induce optimism, but the translation of such optimism into action needs a sustained act of common political will. We shall not back our way quietly and naturally into economic and monetary union, and it may be - and this I believe personally - that our present difficulties may be more of a spur than our successes of the past..

There is a vital difference between the economic situation of today and the 'easy' high growth economies to which we became so used during the last decades. The world's economic climate has changed markedly and the European Community, which more than any other trading entity lives on international trade, is deeply affected. Virtually all our traditional economic terms of reference are under review.

First, a world monetary system, as we knew it for the 25 years of Bretton Woods no longer exists. Major cracks

/began to appear

began to appear in 1968; by 1971 it was acknowledged that the system was finished. The situation now is marked by a dollar in decline, unable if not unwilling to sustain alone the entire role of underpinning the monetary arrangements of the world.

Second, there is the problem of inflation. This still threatens major parts of the Community. Some European countries, in the aftermath of the 1973 oil price rises, almost learned to live, precariously and profligately, with double figure inflation. We have learned from that experience, the situation is much improved, but in a fragile overall economic situation the risk of a sudden spiral of price rises is still there.

Third, unemployment has increased everywhere. Today it has reached the figure of 6½ million within the Community, about 40% of whom are under 25. Due to the particular demographic situation in the Community, about 9 million more young people will come on to the labour market in the next six years than will leave it. Neither inflation nor such historically high unemployment levels, nor the sluggishness of the Community economy, can any longer be blamed on an imported oil price crisis now five years old. That shock should have been absorbed; the problems we now face are not transient.

Fourth, the Community faces acute problems in relation to what is now becoming known as "the

international division of labour". Its interest in the maintenance and development of an open world trading system is immense. It is much more dependent upon external trade than the United States (14% of European GDP, compared with 8% of US GDP). Moreover, we have a specially close interest in the Third World. This is true on both the political and the trading levels. We have been in the lead in the North/South dialogue. We have invested a lot of political capital in this relationship. The Lomé Convention has been one of our major successes. We are on the threshold of its renegotiation. And our trade is proportionately much more with the developing countries than is that of either the United States or Japan. It is from the Third World, together with the non-Community countries of Europe that our surpluses come, and, which put us in approximate balance, in spite of our massive deficits with the other two great industrialised countries, and with OPEC. Yet we are competitively very vulnerable, not only to Japan and to other Far Eastern countries which have developed in its wake, but also to the 'industrialised pockets' in the Third World proper. The bilateral negotiations we have had to conduct to make possible a renewal of the Multi Fibre Arrangement are a striking example, but no more than an example.

The tight-rope that we have to tread is therefore a very narrow one, and like all tight-ropes it cannot be trod indefinitely. The intervals we have won for

a number of threatened industries must be used with speed for restructuring, although this in itself involves a loss of jobs. But the alternative is growing and permanent uncompetitiveness. We are in more than proportionate difficulties in stagnant world trading conditions. Yet we cannot easily turn inwards, for the reasons given above. We should therefore aim hard at a successful result to the Multi-lateral Trade Negotiations, the outcome of which, apart from their direct effects on trading relations in the 1980s, will also have a more immediate and 'trigger' effect upon determining whether or not the world, more delicately balanced in this respect than for a generation, turns protectionist.

The divergence between the economies of the Nine has increased rather than diminished. From 1974 to 1977 the increase in prices in the Nine Member States of the Community ranged from 25% to more than 100%, the economic growth between -1% and +10%. The North/South gap within the Community has deepened further. Moreover, the prospect of enlargement of the Community from nine to twelve Member States gives a new dimension to a number of the problems which already exist, and inevitably makes them still more urgent and acute.

Enlargement adds to the size of the problems we face, but it does not fundamentally alter their nature. Moreover, we have a clear political obligation to open the door to democratic European states who are anxious and qualified to join. The recent emergence of

democratic regimes in the three applicant nations calls for a full-hearted, positive response from the Community. But at the same time, we have to ensure that the enlargement of the Community does not lead to a weakening and a dilution of the process of Community integration. This is the real challenge of enlargement.

If we fail to tackle this combination of issues, they will threaten what we have already achieved. They all require joint action at Community level. To an unprecedented extent the serious problems which all Member States of the Community face : unemployment, inflation, monetary disorder, protectionism in world trade, energy and industrial problems, all require for their solution common discipline and common solidarity. In part this results, and rightly, from the signal successes of the early years of forming the Common Market. The interpenetration of our economies is now a reality; more than half of our Member States' exports goes to other States of the Community. In such a situation no one can hide behind national borders, give a national aid here, try to reshape an industrial sector there. Such a haphazard course will damage others and that in turn will feed back on our mutual prospects. None of the Member States, not even the strongest, can pretend that within our Community it is possible to have an oasis of stability and prosperity in an unstable continent.

/The stronger

The stronger countries within the Community depend substantially on exports to the weaker members. There is no sufficient margin of demand in their national markets to maintain a high rate of economic growth and to combat unemployment. The locomotive theory has been discarded, in my view rightly. If we are to employ any railway metaphor, all the engines involved must pull out of the station together. One alone will not be enough. To change the analogy for a moment, we cannot hope to get out of the morass by pulling at our own hair, like the Baron von Münchhausen. In such a situation a clear and coherent sense of direction is vital.

Last October, in a lecture at the European University of Florence, I spoke about the need for a new economic impulse on a historic scale. I there outlined my belief that this can be given in the Community by a redefined and faster move towards economic and monetary union. I do not underestimate the difficulties lying ahead of us. I do not assume that success can be instantaneous, but I do believe that it provides a sense of direction which can enable us to establish the necessary links between shorter term decisions and the longer term perspective.

Last December, the Commission put its ideas to the European Council, which gave a positive 'fair wind' to the relaunching of the debate on economic and monetary union. A mandate was given to the Commission

/ to prepare

to prepare the necessary initiatives and to carry the discussion into the other Community institutions. Meanwhile, a major debate on economic and monetary union has taken place in the European Parliament, and we have received encouraging support from many politicians, trade union and European business leaders. The discussion at the Copenhagen Summit of last weekend marked out clearly the pressing relevance of the issue - but I will return to the results of that Council in my conclusion.

Of course, there are sceptics. But they are there to be convinced. Some German observers might be tempted to think that the sole objective of our policy was to draw on German monetary reserves or to impose greater financial sacrifices upon the German taxpayer.

This is not the case. First, any attempt at establishing national profit and loss accounts within the Community is necessarily an imprecise and hazardous exercise. Many economic benefits flowing from the Community do not pass through the budgets. Some, mostly political, are simply unquantifiable. In fact, Germany has done well out of its uninterrupted access to the markets of its main customers, and this is one of the key elements of the common market. Moreover, each Member State inevitably contributes according to its relative economic strength so the

/German financial

German financial contribution to the Community is higher than many, but not all, others. For example, the annual per capita contribution of the German taxpayer to the European budget was 149 Deutschmarks in 1977, compared with 192 for the Belgians and 205 for the Dutch.

Personally I have a good deal of sympathy for that German point of view that says that the transfer to the Community of substantial financial resources alone would be neither in its own nor the Community's interest unless accompanied by real political progress towards further European integration. I agree. We need common, or at the least, coordinated policies, common macro-economic targets, common monetary discipline, common orientations for our industrial or energy policies. For that we need the leadership of all, not one, but Germany is exceptionally well situated to take a lead here and to play a strong 'political' if not 'locomotive' role.

Of course, if we are to adopt such common policies, they must involve money. But this is not in my view a key objection or stumbling block to further advance. We are not talking of relatively huge figures. The budget of the Community is only about 2.5% of the national budgets of the Nine. That is little more than the double of your budget here in Berlin. Three-quarters of this Community budget goes into agriculture, which leaves not much more than half of the total budget of Berlin for the vast areas of social, regional, energy, industrial and other policies. I do not, in mentioning

agriculture, raise questions about the merits of the Common Agricultural Policy. It is a cornerstone of the Community. But in the context of the whole range of pressing Community problems, its relative financial share is undoubtedly too great.

I do not wish again to develop today the full range of arguments for a faster advance in the economic and monetary field, which I have already set out elsewhere, but I should like to emphasise two points.

First, we need a stronger underpinning to the Community internal market. Member States with strong currencies need the impulse of demand which their own national markets can no longer supply. Intra-Community trade grew by only 2% in 1977 compared with a yearly average of 9% in the previous decade. Being able to do business all over the Community within a single currency would considerably reduce formalities and remaining barriers at intra-Community frontiers. A lot remains to be done here, and further progress on dismantling unnecessary barriers is a good example of the way in which practical steps can be taken towards an eventual, and necessary, jump to a full monetary union.

*There are no customs barriers inside the Community any more. But there are still other businesses, too many of them, and everyone who trades with or travels

/to other parts

to other parts of the Community knows how difficult some of these hurdles can be. There are technical barriers, affecting, say, exhaust fumes or braking devices in motor cars. In these areas it is not simply a question of Commission officials obsessively pressing on with unnecessary harmonisation. The purpose is a very serious one. There are also fiscal barriers because taxation and the whole system of fiscal revenue varies from one country to the other. Buying a car in Germany, for instance, involves a TVA of 12%. In Belgium the rate is 25%, in France 33%. Progress has been made with the Sixth Directive on TVA, but there is still a long way to go until Community travellers are free of the surveillance of customs officers at internal frontier posts. It is a welcome comfort when travelling between Belgium and Holland to find a simple traffic light, always showing green, instead of a traveller's control.

But progress towards economic and monetary union does, of course, not only affect our intra-Community relationships, but also - and this is of equal importance - our political and our economic position with the rest of the world. This is the second point I wish to emphasise.

It is not suitable for us merely to complain about the steady decline of the dollar and the breakdown of the international monetary system. We shall all continue to depend on the dollar, and the Vice-President of the

German Bundesbank, as well as others, have pointed out in the last few days how seriously the crisis of the dollar also affects the competitive power of the German economy. But it is clear now that the dollar alone cannot carry the burdens and responsibilities of being the only effective international medium of exchange. In these circumstances we in Europe must urgently consider possible contributions from our side which might help to create order out of the current disorder. The Community's collective weight is far greater than its monetary influence. The Community has the economic strength to create a new ^{alternative and} strong international currency.

The Community is the right size of unit for this purpose and would by its own weight - we are the biggest trading entity in the world - ^{help} impart a new stability to the international monetary system.

Again, progress in this field could be an important ^{of advance.} avenue. Even without embracing for the present the full advantages or rigours of economic and monetary union, there is scope for the Community to develop new dimensions to the use of the European Unit of Account. It could serve as a point of reference and a unit of account for credit and settlement in our internal exchange rate operations. It could be used as a reference in international contracts of private business. It might play a greater role in Euro-currency operations and in transactions between public authorities. It could be tested in

the Community's own borrowing and lending operations. There is a large scope of immediately possible action which would open up an important avenue towards our longer-term goals.

I elaborated my ideas on this subject at the European Council in Copenhagen, and in my view the discussion was particularly fruitful and interesting. We want between now and the next European Council at Bremen to pursue this vigorously and work out new dimensions of Community activity in the longer term perspective of economic and monetary union. In my view we should begin by seeking greater exchange rate stability between the currencies of Member States of the Community, and thus a stronger basis on which to deal more effectively in exchange rate policy with third countries. For this purpose it would in the judgement of the Commission be necessary to extend the Community exchange rate system beyond the snake, give a new dimension to the use of the European Unit of Account, and increase the functions and resources of the European Monetary Cooperation Fund.

We have relatively little time in which to work if the Bremen European Council is to arrive at any conclusions on these major questions. It will of course be followed quickly by the Western Economic Summit in Bonn on 16 and 17 July. I hope it will be possible for the Community to work out a common position and make a strong contribution to the work

of that meeting. It will deal with the inter-relating problems common to all industrial countries and will, as I hope, lead to a more concerted way of dealing with them. In this the Community has a major part to play. It can only play it effectively if its members act together.

For too long Member States have tried to grapple on their own with the consequences of the most serious economic crisis since the war. We have failed to meet the expectations of citizens in our duty to provide the right to work. We have wasted too much effort in arguing about whose responsibility it was to go for higher economic growth. It is time that such arguments were stilled, because we now need to act together, not simply because we should, but because we must. It is all too easy to raise then dash expectations. But I firmly believe there is now a real opportunity for the Community. Indeed, it may be that the Community is about to approach /^{the} second major cross-roads in its history. The first move to European integration arose out of post-war depression and reconstruction. We then failed in the good years of the sixties to take advantage of our strength. It may seem to some ironic, but indeed it is historically logical as well as necessary, that in this period of European and international difficulty, we may be able to make a new and great advance.