

THE RITA HINDEN MEMORIAL LECTURE

DELIVERED BY THE RIGHT HON ROY JENKINS  
PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES  
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"Europe:  
Why Social Democrats Should Support a New Advance"

There is a double attraction in having been invited to deliver this year's Rita Hinden Memorial Lecture. It is an honour because of the distinction of my predecessors at this rostrum: and it is a pleasure because of the warmth of commitment which Rita Hinden brought to the great causes with which she was selflessly associated. I begin my remarks this afternoon by paying tribute to her memory. 'Socialist Commentary', so much her creation, has been much more than a friend, valuable though it has been as such. For 20 years it has been both a haven and a rallying point, and Labour Party politics would have been much less sensible and informed without it.

For Rita Hinden, libertarian social democracy, to which she devoted a lifetime of service, was closely, indeed inextricably, linked to European union, for which she fought no less determinedly in her later years. I believe that she was right to see a link between them, and it is the nature of that link that I want to explore today. Unlike some previous lecturers in this series, however, I shall not concern myself primarily with the fundamental moral and philosophical basis of social democracy. Instead I shall try to examine a number of pressing, practical questions - questions which, I believe, require urgent answers if social democracy is to remain a viable political form in the continent of its birth.

What do I mean by social democracy and why do I believe that its fate may be in balance? The term is, of course, both controversial and imprecise. Like most such terms, it

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has been used in a wide variety of ways since it was first coined, and is still subject to a wide variety of interpretations. But I do not think it would be profitable to embark on a lengthy historical account of the way in which it has evolved since the first mass social democratic party grew up in Germany more than seventy years ago. Nor do I see much point in engaging in an essentially semantic exercise, designed to defend my interpretation of it against possible rivals. I merely assert that, for me, the essence of modern social democracy lies in a double commitment to individual freedom on the one hand and to social justice on the other, and that both halves of that double commitment should count equally.

From that fundamental principle a number of conclusions follow. It means that social democracy rejects the assumptions and consequences of both classical nineteenth-century liberalism and classical nineteenth-century Marxism. Social democrats reject the laissez-faire assumptions that the market always knows best; that state intervention in the working of the market is bound to distort the proper allocation of resources and to invade individual rights; and that strong government is incompatible with individual freedom. They know that, in reality, a strong, and (within limits) interventionist state is often the guarantor of personal freedom, and that if the market is left to its own devices the weak are likely to go to the wall. They also reject the assumption stemming from Marx that social justice and true freedom are impossible when the means of production are privately owned - knowing that, in reality, complete public ownership has invariably been accompanied by the stifling of individual initiative and has concentrated power in the hands of a more or less oppressive state.

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A more positive conclusion can be drawn as well. For Marxists and laissez-faire liberals alike, the modern mixed economy - an economy, that is, in which the state intervenes actively and continuously to redress the balance of the market in favour of the weak, but in which a strong and desirably profitable private sector exists side by side with the public sector - is an intellectual and emotional affront. If the intellectual premises of either Marxism or laissez-faire liberalism were valid, the mixed economy could hardly exist, except perhaps in a highly transient and unstable form. The fact is that for the last thirty years it has not only existed throughout much of the developed world, but for by far the greater part of the time provided the most sustained period of wealth and welfare growth the world has ever seen. For social democrats the mixed economy is positively desirable - not as a transition to a complete theoretical socialism but as a continuing and desirable framework for social action and political argument. Social democrats know, of course, that no particular mix is perfect, and that, even in the most advanced and prosperous mixed economies, mankind's unending battle against injustice and avoidable suffering still has to be fought. This does not surprise them, for they also know that perfection is impossible outside Utopia, and that the messianic search for Utopias led more often to bloodshed and tyranny than to advances in welfare. And they know, too, that the mixed economy offers as good a defence as mankind has yet devised against the arrogance of power, and that it is only in a mixed economy that their double commitment to freedom and justice can be realised in practice.

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This, I believe, is where the continuing link between social democracy and European union is to be found. The history of Western Europe since the war has been characterised above all by the triumph of social democracy in the sense used here - even in countries where social democrats have not held power or where the values of social democracy are not promulgated by explicitly social democratic forces. All the Member States of the Community are mixed economies. All have sizeable public sectors, coexisting with the private sector. All practice some variety or other of more or less flexible economic planning. None gives a free rein to market forces, yet in all the need to control the operation of the market in the interests of society as a whole is balanced against the need to allow the greatest possible freedom of choice to the individual consumer. All are welfare states, allocating a significantly higher proportion of their gross national products to social welfare than is the case in most of the rest of the world. And all are, at the same time, open societies with free institutions.

What is also significant is that the same approach prevails at the Community level as well. The Coal and Steel Community of the early 'fifties - the foundation on which the present Community was built - was not explicitly social-democratic in form, but it was certainly social-democratic in spirit. Its object was to create a common market in coal and steel products, and in so doing to prevent the re-emergence of the cartels which dominated both industries before the war. But the High Authority which managed the Community's policies was a highly interventionist body, and had at its disposal a wide range of instruments which to make its interventions bite - instruments which were inherited by the Commission when the Coal and Steel Community

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merged with the Economic Community. The Rome Treaty, it is true, gave more emphasis to free competition; and in its early years the Economic Community concentrated on removing trade barriers and ensuring the freest possible exchange of goods and services. Since the early 'seventies, however', the Community has adopted an increasingly interventionist stance on a whole range of industrial problems, and has also devoted increasing attention, although not yet enough money, to the redistribution of resources in favour of the weaker regions and disadvantaged social groups through the Regional and Social funds.

This movement to social democracy has over a short generation assumed a familiarity which <sup>now</sup> makes its weaknesses more apparent than its underlying virtues. And indeed the economic strains and checks of the past 5 years have exposed weaknesses which were not apparent in the heady rush to prosperity of the 'sixties. Even with the additional dangers and difficulties of today the advance over a generation has been immense. Forty years ago this month, what was the scene? German Nazism & Italian Fascism were each in the plenitude of their powers and were about to cement their brutal partnership with Hitler's visit to Rome. The Spanish Republic was near to defeat. Léon Blum had just lost power in France, and Neville Chamberlain enjoyed an apparently unchallengeable majority

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in the British House of Commons. Only a few disparate islands of social democracy stood out: in New Zealand and Scandinavia. In the United States, the New Deal had lit a beacon for the democratic left throughout the world. But in Europe, darkness seemed to be closing in. The survival of free institutions seemed to be in doubt; to many of the most intelligent of my own generation the only choice seemed to lie between a totalitarianism of the Right and a totalitarianism of the Left. Few would have dared to predict that, only a decade later, Western Europe would have come through catastrophe and was on the threshold of a generation of burgeoning prosperity and increasingly secure peace; fewer still would have guessed that, during that generation, social democracy would become the Western European norm.

The European Community has been the buttressing accompaniment rather than the trigger of this massive achievement. The trigger was a combination of American generosity, not entirely without self-interest but of an unusually far-sighted nature, which is perhaps the best recipe for constructive statesmanship, and of determined and courageous leadership by a handful of remarkable European politicians. I do, however, believe that the future preservation of this achievement depends on the underpinning and strengthening of the Community. For the triumph of social democracy has been built on success - and, more particularly on a combination of the abandonment of narrow nationalism and the practical vindication of the ideas of Keynes by the war-time needs of America and the post-war needs of Europe. No one needed to recall the recipe of one of his more famous phrases, "to bury bank notes in disused coal-mines and leave it to private enterprise to dig them up" because the demands of the war on the

US economy and of the need for post-war reconstruction on a devastated European continent provided less contrived remedies. The Keynesian techniques also made it possible for the state to manage the economy at arm's length, without recourse to the bureaucratic paraphernalia of quotas and physical controls. Most of the advantages of the free market and the price mechanism could be enjoyed while avoiding the waste and suffering which had characterised them in the past. And the net result was the most rapid and sustained increase in living standards - both private and collective - which this continent has ever known. There was a comparable release of energies and creation of wealth in post-Civil War America, but then it was accompanied by far more harshness of experience and inequality of reward.

Now, however, there are signs that - at any rate, at the level of the medium-sized European nation state - the Keynesian Revolution has run its course. Six and a half million people are now out of work in the nine Member States of the European Community. In the next seven years, nine million more young people are expected to join the Community's labour force than old people are expected to leave it. There is no immediate prospect of a major upturn. By all the rules of Keynesian economic management, this would be the time to pump extra purchasing power into the economy, to stimulate demand and bring down unemployment. Yet no Member State of the Community dares to do this - not because their Governments are indifferent to the human and social costs of high unemployment, but because the familiar instruments of navigation no longer chart our way in the seas of the late 'seventies. It is as though we had gone into some strange limbo in which the compass and the sextant no longer work.

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In countries with weak currencies, Governments are deterred from taking action to expand the economy by fear of the consequences for inflation and the exchange rate. They know that the immediate consequence of an increase in the budget deficit or the money supply is likely to be a fall in the exchange rate: and that the consequences of a fall in the exchange rate will include an increase in the rate of inflation, a stimulus to inflationary expectations, damage to the chances of stable wage bargaining and damage to both consumer and business confidence. So they sit tight: and in the circumstances it is difficult to see that they have much alternative.

At first sight it might be thought that the Member States with strong economies should therefore assume responsibility for pulling the Community out of the recession. But on closer investigation, it turns out that this is not possible either. For the countries with strong currencies are heavily dependent on exports, with the result that their levels of employment and investment are determined as much by the state of demand in the countries to which they sell their goods as by the state of demand within their own frontiers. German industrialists will not be inclined to invest in new plant or machinery, or take on extra workers, merely because the German Government increases public spending or relaxes credit conditions. They want to know what is going to happen outside Germany, in the countries which buy German goods. Thus, it is argued, even in Germany, Keynesian pump priming is more likely to produce harmful effects on prices than beneficial effects on output and jobs.

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This is not to say that the classic Keynesian instruments no longer work at all. It is to say that they no longer work in the member states of a Community characterised by high trade interdependence and with highly volatile exchange rates. After all, the central premise of Keynes' theory was that Governments could determine the level of effective demand for the goods produced by their own nationals. Forty years ago, they could. They can even today, in a continental-scale economy like that of the United States - though even here there are now difficulties. But in the much smaller nation states of Western Europe, they cannot and for us, I believe, there are only three choices open. The first is to sit passively in the face of a recession which has already inflicted great damage on our societies, and which is likely to inflict much more if it lasts much longer. The second is effectively to abandon our attempts to promote the free exchange of goods and services and return - no doubt slowly and without openly acknowledging where our actions are leading us - to the beggar-my-neighbour autarchy of the 1930s. The third is to recognise that the vicious circle of unemployment and inflation can be cut through only at a continental level and to find a way of cutting through it at the level of the European Community as a whole.

I do not believe that social democracy could long survive the adoption of either of the first two choices. To allow the present level of unemployment to continue indefinitely would not only be callous and inhumane, it would be to proclaim that the mixed economy had failed after all: that the effective choice for humanity did, after all, lie between the harsh doctrines of the nineteenth century. A slow and unacknowledged return to autarchy, though less obviously damaging in the short run,

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would, I believe, be equally destructive in the longer term - destructive to prosperity, destructive to good international relations, destructive to the Community and destructive eventually to democracy as well.

Only the third choice, in my view, remains; and there is no denying that the third choice entails a transfer of power from the national to the Community level. It entails, in the first place a firm commitment to European economic monetary union. At present, as I have tried to show, each of our member governments is caught in a straitjacket in which action to stimulate demand effectively and therefore in the longer term, is ruled out either by fears of a fall in the exchange rate or by the knowledge that other governments cannot stimulate demand because of their fears of a fall in the exchange rate. I do not claim that full employment would automatically follow if these exchange-rate uncertainties were ended by monetary union. I do believe that there is no hope of returning to an acceptable employment level unless they are ended: and I see no prospect of ending them without monetary union. Monetary union is not a sufficient condition of economic recovery. But it is, I believe, a necessary condition.

Here I may be told that, however desirable it may be in principle, monetary union will not work unless the economies of the Community move much closer together, and, in particular, unless the richer economies transfer resources to the poorer on a scale which is politically inconceivable: that it would mean turning the Community into a federal state: and that federalism is not only a lost cause but a deservedly lost cause. I should like to comment briefly on both these criticisms.

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It is true that monetary union requires a coming-together in economic policy on the part of our member governments: by definition, the same applies to any attempt to solve our problems through common action. But it is not true that monetary union pre-supposes equality of, or even rapid convergence in, economic performance. If it were, the monetary union known as the United States would long since have fallen apart. What is essential is that all the parties to the union - stronger and weaker alike - should benefit and be seen to benefit. Provided that essential condition is met, union is consistent with wide variations in living standards and productivity.

That condition is not as difficult to meet as is sometimes supposed. In particular, I do not believe that it will require gigantic transfers of resources from the strong economies to the weak. In their impressive recent report on the role of the public finance in European integration, the MacDougall group of economists calculated that European monetary union might be feasible if the Community budget were increased so as to account for 5 per cent of total Community GNP as against the present figure of 0.7% of Community GNP. That is a formidable increase. It is not, I suggest, over a period a politically inconceivable one. At 5 per cent of Community GNP the Community budget would of course be far smaller in its impact on the economy than those of the Member States, which account on average for around 40 per cent of GNP. It would also be far smaller than those of the central governments of most federal states, which generally account for between 20 and 25 per cent. Yet a 5 per cent budget would give significant and tangible benefits to the weaker economies of the Community. At the same time the advantages to the strong of a decisive underpinning of the unity of the market

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would be very great. This is particularly so when the necessary and indeed desirable, but in itself potentially loosening element of further enlargement of the Community is being introduced. It is also particularly so when the world competitive position of even the strongest of our economies is less so than it was a decade ago.

The charge that monetary union would be a step towards 'federalism'. with the implication that anything that smacks of 'federalism' is ipso facto to be condemned, is in some ways more difficult to take hold of, for the term 'federalism' is as imprecise as it is highly-charged. I shall therefore try to stand back from the argument a little and to discuss, as dispassionately as I can, what seems to me the real institutional choices facing the Community, and the ways in which monetary union would bear upon those choices.

I start with the obvious - but all too often neglected - proposition that the Community's system of government is sui generis, with no precedent in history and no parallel elsewhere in the world. It is not remotely a federation, if by 'federation' is meant a form of government akin to those of the United States, the Dominion of Canada, or for that matter, the Federal Republic of Germany. The Council of Ministers is not a Senate or a Bundesrat; the European Parliament is not a Congress, and will not be one even after direct elections; the European Council (of heads of government) has no parallel in any federal system. Yet the Community is certainly not simply an association of sovereign states, joined together for strictly defined and limited purposes, like the OECD or NATO. There is no equivalent to the Commission or the European Court in NATO or the OECD, but the Council and the European

Court both play crucial parts in the government of the Community. The truth is that the Community and the Community method fit none of the conventional categories of political analysis, and that attempts to apply conventional categories to them confuse more than they illuminate.

I believe that this will continue to be the case for the foreseeable future. Charles Stewart Parnell said: "No man can set a limit to the march of a nation". The same applies to the march of a continent. Subject to that proviso, there is clearly little prospect of the Community's developing into a federal state on the model of the United States or Federal Germany. Nor do I see any need for it to do so. There are too deeply imbedded national traditions. The really important question now facing the Community and its Member States is not whether to imitate or avoid an arbitrary model of federalism, based on American or German experience. It is how and to whom to re-apportion the functions which used to be exercised by the European nation states, but which the

European nation state can no longer exercise effectively. To insist that those functions can only be apportioned either in the way that they are apportioned in the Community today, or in the way that they are apportioned in existing federal systems, is to beg this question - and, in doing so, to foreclose the future in a way which is as damaging as it is unimaginative.

The classical European nation state is, I believe, both too small and too big for all purposes. It is too small to restore full employment or promote economic growth. It is too big to satisfy the growing demand for cultural differentiation and effective popular participation in decision-making. Some of its

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functions should be transferred upwards, to the Community. Others can be transferred downwards, to provinces, regions or localities. I see no good reason why both these needs should not be met at the same time. But if we are to meet them, we shall have to devise a new pattern of government in the Community, with a new set of relationships between the Community, the national, the regional and the local levels. No satisfactory model for this new pattern exists: it will have to be built up gradually through trial and error. But it is at least clear that it will have to be a European pattern, built on European precedents to suit European requirements. It is equally clear that it will have to provide, at one and the same time, much more scope for initiative at the bottom, and much speedier and more effective decision-making at the top, than are to be found in the Community at present

That means, I believe, that it will have to be much looser and more de-centralised than any known federal pattern. But it also means that it will have more important decisions in common than is the pattern of Community government today. Monetary union, in particular, will entail a more significant transfer of power from the national to the Community level than has been carried out so far. In a monetary union, control over the money supply and the exchange rate - two of the most prized weapons in the armoury of the modern state - would have to be exercised by Community, rather than national, authorities. New Community institutions would have to be created, and a new Community system of parliamentary control would have to be devised. It is true that, from the point of view of the Member States, the powers which would have to be transferred to the Community are, in a sense, illusory powers.

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As I have tried to show, they can no longer be exercised effectively at the national level. No country, as our own experience between 1972 and 1976 showed decisively, can go entirely its own way in these matters without near disaster. We did not cure unemployment - on the contrary. We got inflation without growth, and we lost control of the exchange rate. Our recovery began when, partly by necessity and partly by our own will, we accepted international disciplines. But the Community is large enough for the powers exercised at this level to be real and not illusory. There can, however, be no doubt that the transfer would result / in an important change in the existing relationship between the Community and the Member States.

.At this point in the argument, a new objection based on posing as realism pessimism / objection is apt to make itself heard. Given that European union is a good thing in principle, it may be asked, given that a more supranational Community would be a good thing if we could get it, surely the history of the last 20 years proves that a more supranational Community is a pipe-dream? We are after all, trying to unite ancient and deep-rooted nation states; with different traditions and to some extent different cultures. Surely, in these circumstances, it is hopelessly impractical to try to go much further than we have already gone? That being so, is there not a danger that, if we try and forge ahead, we shall merely provoke opposition which might otherwise have lain dormant, and end by doing more harm than good?

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In one form or another, I have heard that argument a good deal in the last 12 months - even more on this side of the Channel than on the other - and it must be taken seriously. I believe, however, that it rests upon two profound misconceptions - one about the present state of the Community and the other about the nature of present-day European society. Let me deal with each of these misconceptions in turn.

Implicit in the whole argument is an assumption that the Community can choose between moving forward, and staying where it is. I am convinced that assumption is false. I have already pointed to the danger that, if no solution is found to the present economic crisis, the weaker economies may slip backwards into the protectionism of 40 years ago and impose intolerable strains on the Community in doing so. That problem is serious enough, but it is only one of the problems facing us at the present time. There is also the problem of enlargement, which I have already mentioned in passing: a problem different in kind, but equal in scale. Enlargement is unquestionably a political imperative for the Community. To slam the door on the newly re-emerged democracies of southern Europe would be an act of folly as well as of selfishness. It would put the survival of free institutions in the applicant countries at risk, with incalculable consequences for the whole of the Mediterranean region. No one with the interest of western democracy or a respect for the essential political and Europe-wide purposes of the Community at heart can willingly contemplate taking that risk. Yet there can be no doubt that if the Community is enlarged from nine to twelve both its economic and its institutional problems

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will be exacerbated; and that if no strengthening measures are taken in advance, the achievements of the past 20 years will be placed in jeopardy. They can be solved if there is a will to solve them. But they will be solved only if the existing members are prepared to move forwards. The choice, in other words, does not lie between moving forward and staying where we are. It lies between moving forward and moving back.

The second misconception goes deeper. It is true that the nation states of Europe have deep roots, ancient traditions and, in some respects, proud histories. It is also true that there are significant social and cultural differences between them. But it does not follow that these differences are so great as to rule out a firmer, more cohesive, but not all-pervading, form of European union. The differences are, after all, no greater now than they were when the foundations of the Community were laid. If it were possible for France and Germany to merge their coal and steel industries only seven years after the third and most devastating war between them in less than a century, why should it be impossible for nine countries which have been at peace with each other for a generation, and whose old hatreds have mellowed beyond all recognition, to move towards a more cohesive Community than they have so far created?

The argument that progress towards a more cohesive Community is ruled out by deep-seated differences of culture and tradition rests, it seems to me, on an unduly static and fatalistic conception of political man. It assumes that we are prisoners of our histories, that our attitudes are fixed forever in a mould set by the past. It underestimates the capacity of ordinary men and women to learn from experience, to widen their horizons, to recognise that new circumstances  
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demand new approaches. Above all, it neglects the role of leadership in changing old attitudes and in helping create new ones. The fact that the European Community exists today is, after all, a testimony to the capacity of political leadership to change attitudes in a way that would have been considered impossible before it happened. The present generation of European political leaders cannot afford to fall below the standards set by the last generation in that respect.

This stretch of the road is not easy. The institutional problems are particularly formidable and will test our ingenuity to the utmost.

This, linked as it inextricably is with the problems of unemployment and enlargement, is the most pressing challenge which social democracy now faces on a European scale. Direct elections to the European Parliament, delayed though they are, will at the latest take place in 1979. The campaigns must soon be planned. For the first time the people of Europe will be called upon to make a choice between rival conceptions of the Community. This provides a major opportunity to confront its electors, with the options now facing it, and, in doing so, to create a genuinely European public opinion. It will be a contest which breaks new ground. I hope that British social democrats play their full part in it together with the continental socialist parties.

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