

ADDRESS TO THE NUREMBERG CHAMBER OF COMMERCE
AND INDUSTRY

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COMMISSION OF THE EUROPEAN COMMUNITIES

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THE REFORM OF THE EUROPEAN COMMUNITY: THE BUDGET

I thank you for your kind words of introduction.

It is a pleasure to be in Nuremberg tonight. I am conscious that I am speaking of our very young European Community - only twenty-three years old - in a city with nine hundred years of history behind it, a city which has made an incomparable contribution to European society and civilization.

It is not perhaps surprising that our Community should have major problems facing it. But these problems arise essentially from the rapid growth of our policies and institutions, and the need to shape them to changing circumstances and requirements. In short our problems are those of youth, and like other problems of youth I hope we can be forgiven them.

In a speech at Luxembourg two weeks ago I spoke of the future of the European Community as I saw it. I had something to say on the same theme to the Community Heads of State and Government at the European Council on Tuesday of this week. I want today to develop some of my thoughts and to identify more precisely the choices - indeed dilemmas - which now face the Member States of the Community.

The affairs of the Community play a central part in the lives of the peoples and governments of the Member States. But the way in which they do so is curiously patchy and uneven. It has been rightly said that if the Community had to be invented today, it would not, as it did twenty-three years ago, start with coal and steel and agriculture. This is not to criticize the judgments or motives of those who made the Coal and Steel Community or built up the Common Agricultural Policy. They had to begin with what were the essentials of their time, and by and large they did well. Now the priorities are changing. We have the dual task of safeguarding what has already been achieved, and building up the Community in such a fashion as to meet the current and developing needs of all Members of the Community: the original Six, the Three who joined in 1973 and Greece which joins us on the first day of 1981. We also have to look ahead to the day when, as I hope, Portugal and Spain will join us too.

We now face a number of interlinked and long-standing problems, some of which have been perhaps unduly neglected in the past, which require urgent attention. The nature of the crisis which afflicted the Community in the early part of this year is not always easily understood. It was not just that one Member State found itself making what was on any reckoning a disproportionately high contribution to the Community budget. What was at stake was a more fundamental problem of balance within the Community: balance between the resources devoted to the Community's

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different policies; and balance between the costs and benefits of these policies, not just in the budgetary sense, to the different Member States. As member governments found themselves grappling with these issues they became increasingly aware that the present system of Community financing was reaching its limits and that the ceiling would almost certainly be reached towards the end of next year.

A temporary answer was found in May to the immediate budgetary problems which will tide us over the next year or so. But the underlying questions remain to be solved. In the forefront one issue dominates the rest. How are we to safeguard the achievements of the Common Agricultural Policy while devising ways of curbing certain unjustified aspects of its expenditure? Having grown by some 25% a year over the past five years, the Common Agricultural Policy now represents an annual cost to the Community of some 27 billion Deutschmarks. This has had the effect of magnifying the unequal financial burdens and advantages for our Member States to a point at which the resulting imbalances can no longer be ignored. But in considering the budgetary consequences of the adaptations which we must make to the agricultural policy, we must also take a new look at those other policies financed from Community resources which it will be sensible to maintain and in some cases expand. In doing so we shall nonetheless have to recognise that the balance of the Community's spending policies cannot be considered without assessing how and where the budgetary

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burden will fall on the different Member States of the Community. I can well understand the strong feelings which you in Germany have on this point.

We shall also need to reach a fresh understanding on the role which the budget should be playing at the centre of the Community. It amounts to a considerable volume of financial resources although it represents less than one per cent of the Community's total GNP. But if our expenditure is dynamic, all too dynamic, our revenue is relatively stagnant. Of our three sources of revenue, one - Value Added Tax - has some buoyancy; but the other two - Customs Duties and agricultural levies - tend actually to diminish as trade within the Community increases. Until now the budget has been generally seen as no more than the financial expression of policy decisions taken in previous years. We cannot continue to take this rather simple view. Now that we have the immediate danger of our expenditure outrunning our revenue, new thought will have to be given to fixing the true priorities of Community activity.

This Commission has already devoted much time and thought to this range of problems, but it will be for the next Commission to make firm recommendations on what should be done. No single magic solution is available. In practice we shall need to reach agreement, as so often in Community affairs, on a package of measures. It is already possible to identify a number of important elements in such a package.

First we shall need adaptations to the Common Agricultural Policy designed to seal off agricultural expenditure. I would like to see such expenditure held in money terms, and therefore brought down in real terms. But we have not had much success with member governments in urging such a policy so far. It may therefore be more realistic to hold agricultural expenditure in real terms, and if we can do better, count it as a bonus. The main means by which we should do so is by stopping unlimited intervention. Secondly if a better balance of Community expenditure is to be achieved, we must expand those policies designed to help rectify some of the basic structural weaknesses within the Community, whether they be industrial or agricultural, regional or national. Thirdly we shall need to recast our budgetary system in such a fashion as to ensure that contributions to and receipts from the budget are more fairly distributed.

Some of this can be achieved within the broad framework of existing Community arrangements. But we should be deceiving ourselves and doing a disservice to the Community of the future if we imagined that tinkering with such arrangements can be anything more than a partial and temporary solution to the problems I have outlined. I am all in favour of using the present ceiling on our revenue as a lever to compel reform. It is a lever that can and must be used in the next year or eighteen months. But for the future we need a consistent long-term strategy which will make of the Community something which is very much more than what it is at present: a largely agricultural

Community with political trimmings together with an incomplete common market in industrial goods with a common external tariff. To achieve such a Community we shall, in my judgment, need to increase the Community's financial resources.

The question of how such resources should be raised does not seem to me to create major difficulties. We should not allow ourselves to become emotionally engaged in an argument about whether or not to increase the 1% ceiling on yield from Value Added Tax. This is only one method of increasing revenue, and it may not be the best one. It would in any event require a new Treaty, subject to parliamentary ratification, and I do not think that any of us would wish to embark on that now. In 1970 much thought was given to the creation of an own resources system, and I think we should go back to some of the ideas which were then considered and discarded.

To illustrate what I mean, let me mention two obvious possibilities which relate directly to our declared objectives of reducing our agricultural surpluses and reducing our dependence on imported oil. We already have the so-called co-responsibility tax on milk products. Here the principle is to give back to the milk producers at least some of the financial responsibility for their excess production. There is surely scope for increased use of this instrument in the form of an extended co-responsibility tax or better a super levy as proposed by the Commission last year.

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Secondly we have floated the idea of a levy on oil imports. To meet our international obligations it would be necessary to couple such a levy with a production tax on oil produced within the Community. An import levy, which would form part of an effort to harmonize oil prices and taxes within the Community, would not necessarily mean any increase to the consumer. That would be for governments, with their present divergent taxes on energy, to determine. At least we should then have a Community instrument capable of dealing with energy problems in their due macro-economic perspective. Moreover as with an extension of the levy system on surplus milk products, we would have a source of Community revenue which would give the Community the means to do the job which is increasingly asked of it.

The question is what that job should be. Let me emphasise that in my judgment we must only give to the Community those functions which will yield significantly better results because they are performed at a Community level rather than by the individual Member States. How those functions should be defined should form part of the work on which the Commission and after that the member governments are now engaged. Here the Treaties of Paris and Rome are no longer a sure guide. We have already gone beyond them in some respects, and I expect will soon go beyond them in others.

I have read many accounts of what took place at the Stresa Conference in 1958. In some ways the task of the participants was at once harder and at once easier than

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ours. On the one hand they were venturing into unknown territory. They had to draw up a contract which inevitably involved some transfer of power from national sovereign states to the untried institutions of the Community. On the other hand there was a strong element of drama surrounding their deliberations which I think we would find useful today. Without such a sense of drama it is harder to arouse the popular support and interest which together make it possible to overcome the difficulties and arrive at clear political decisions.

Anyone reading the Treaty of Rome today cannot but be struck by the importance given to the removal of national barriers and obstacles to trade. Certain key articles deal with the elimination of customs duties, non-tariff barriers and obstacles to the free movement of persons, and capital, and call for the approximation of laws and rules of competition. Of course the creation of a Common Agricultural Policy and other desirable objectives find their place. But the major emphasis was on the creation of a single market as a source of wealth and means of creating political unity. Now more than twenty years on the priorities must be different.

Let me suggest four central objectives to which I think there should be a new and collective commitment at the highest level in the Community. First I think we should carry forward the removal of barriers to trade in industrial goods by establishing a Community approach to the creation of an industrial base for the future.

It should go without saying that the process of industrial renewal is a measure of the vitality of any economy.

At present that vitality in Europe is low. By comparison with our major industrial partners, we have been relatively unsuccessful both in renewing existing industries and in introducing new industries based on advanced technology.

At the level of the Community I am afraid that we have been more concerned with the problems of industries in difficulty and decline (I think particularly of steel, shipbuilding and textiles) than with the creation of conditions for the new industrial base we need.

In my judgment what we want is a co-ordinated approach which can lead to the establishment of a single Community market of the kind now enjoyed by Japan and the United States. Within that market there should be harmonisation of services, common information networks, and above all common technology standards to be encouraged and if necessary enforced by public authorities, in particular purchasing authorities. Governments should likewise consider together the fiscal means of promoting innovation and define the sectors which should benefit.

The message of industrial innovation may often be unwelcome because uncomfortable. It makes it all the more important that it should be addressed not only to the many agencies of the governments which determine the scope and pace of change, but also to the unions, to the employers, and to public opinion at large.

This leads me straight into my second objective which is realistic policies to deal with the problems of

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unemployment. One of the reasons for our relative industrial decline has been our failure to transfer labour from industries in difficulties to the industries of the future. Industrial innovation is in fact the best and over a period the only effective way of coping with unemployment.

There have been a number of theories to explain the slowing of economic growth within the Community. There has been the energy crisis and the effect of sharp price increases on our stock of productive investment and human skills. There has been the dismal fact that slow growth feeds on itself making more difficult a resumption of the faster growth of the past. Then there has been the increasing burden of taxation and regulation of the dynamic elements in our economies.

I believe that the Community should do far more than it has so far done to co-ordinate the responsibility of Member States to these difficulties which in one measure or another affect them all. I have already referred to the need for us to reduce our dependence on imported sources of energy, and here some progress is being made. But to break out of the vicious circle of low growth is peculiarly difficult. Investors are reluctant to come forward unless they know that the market is going to expand; yet without new and much of it private investment there can be little prospect of such expansion. As for dealing with the burden of taxation and regulation, it is easier for the Member States of the Community to act together rather than separately

in determining the right relationship between the private sector and the public sector and in particular the burden the private sector should bear in financing public services.

The same goes for the domain of working time and practices. We are all aware of the dangers of some simple linear reduction in working hours. If one Member State should go ahead in a radically different way from another, it would be bound to affect the competitive situation between them, and could risk accentuating the differences in wealth and living standards within the Community. Again a Community approach seems to me highly desirable.

My third objective is the completion of the work begun with the creation of a European Monetary System in March 1979. We have made enormous progress since I tried to sketch out my ideas for an economic and monetary union in Florence just over three years ago. The European Monetary System has already brought a measure of financial stability to the Community at a time when other world currencies have fluctuated violently. We had a good discussion on the subject at the European Council this week, and I particularly welcome the agreement, expressed in the conclusions, about the progressive development of the use of the European currency unit or ECU. A beginning was also made in working towards a common European position with regard to third currencies. In view of what was achieved I would not wish to appear grudging. But I think we should move further with all possible speed towards the use of the ECU as a fully fledged international

reserve asset, towards fully co-ordinated policies with regard to the dollar, the yen and other third currencies, and towards the creation of a European Monetary Fund as an indispensable institutional framework. I have said many times that I believe that sterling should come fully into the system. I repeat that I believe full British participation in the System would be as much to the advantage of Britain as to that of the Community as a whole.

My fourth and last objective is that the Community should establish its priorities for future expenditure and thereby produce a proper balance of advantage between the interests of the Member States. I know that the Community is not generally regarded as an instrument for redistribution of wealth within the Community. No-one has ever expected consistent equality of performance or exactly the same standards of living. But we have to face up to the fact that the gap between the richer and the poorer countries and regions has actually widened, and the power of favoured industrial areas round the geographical centre of the Community has grown at the expense of the more distant parts. It is, for example, hard to believe that the people of Italy whose lives and livelihood have been grievously affected by the recent earthquake belong to the same Community as the people of Nuremberg and its surroundings. We could accept such a situation as some natural fact of life about which none of us need do anything. I do not believe this would be just or wise. Widening differences within the Community

destroy the very notion of the Community. It would be as well to face that now rather than later.

Where then should we place our priorities for future expenditure? I have already spoken of agriculture. Here I recognise the importance of the social role of the Common Agricultural Policy. Energy should, I believe, be the first of our other priorities. In no area is a case for a greater collective effort so overwhelming. I am not thinking only of money. But as the Commission suggested in March, I believe that we should work to harmonize prices and taxes throughout the Community and establish a properly financed programme to promote energy saving, to substitute oil by energy from other sources and to develop renewable sources. Next I believe that the Community should deepen and widen its responsibility for regional development in at least four ways. It should contribute far more than the token amounts now allocated in the budget, and that part of the Regional Fund which is not subject to quota should be greatly increased. We should shift our focus from the problems of rural areas to those of redevelopment of some of our declining urban centres. We should give more attention to the strengthening of the infrastructure of transport by road, rail and water within the Community. This is one of the prime reasons for divergence between countries and regions. Last I think we should develop a more substantial social policy to facilitate and accelerate that shift of labour from declining to expanding industries to which I

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Each of the four objectives I have outlined point at the heart of the major problems we face. All would require a new effort on the part of Member States to act together, some in areas where Member States have hitherto acted separately. I do not underestimate the difficulties. But I am sure that they are no more than those our predecessors faced when they tried to sketch the shape of the Community more than twenty years ago.

As we move into 1981 we should recognise the twin tasks which face us. First to put our house in order so that everyone can feel that the policies to which the Community's resources are devoted are both sensible in themselves, and fair in the burdens and benefits they bring; and secondly to redefine the role of the Community in the years ahead and give it the due means to fulfil it. The achievement of these tasks will, I hope, be seen as exhilarating as well as daunting by those who will have to undertake them.