

Mr. Chairman, "

I am particularly pleased to be with you today as it is becoming most important that organisations like yours are aware of the problems that are facing Europe in the 80s, but more especially to understand some of the difficulties that lie in the way of closer European-American relations. So what I would like to do today is to examine some of the problems that Europe will face in the 80s and then to have a look at some of the problems that are creating difficulties between Europe and the United States. At the risk of being accused of teaching my grandmother to suck eggs I think I ought to start perhaps by giving a few of the basic facts of the European Economic Community.

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The Community now consists of 10 nations, and this is likely to increase to 12 within the next year or so. With a population of over 260 million people, it is the largest trading bloc in the world. In world trade terms it accounts for almost 40% of total imports and 37% of total exports. So it will be readily appreciated that what happens within the Community, either at the economic or political level, is likely to impinge upon the international community. When the Community was created in the early 1950s, the major problem that faced the 6 countries which then made up the Community was that of a large and declining agricultural community in need of support and rationalisation. This is no longer true. The major problems now facing Europe are industrial and urban, not rural and agricultural. We face the problems of increasing mass unemployment,

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the decline of our basic industries, the lack of adequate investment in new technologies, and increasingly bitter competition from our trading competitors. And all this against a background of increasing oil prices and a protracted world recession.

During the 1970s, after a period of some 25 years of rapid economic development, the most urgent problem facing Europe was inflation. Indeed there was a period in the 1970s when some European countries teetered on the brink of hyper-inflation, which brought back all the bitter memories of the Weimar Republic. It is, therefore, perhaps understandable that the anti-inflationary measures taken by many Governments in the Community paid little regard to the social consequences that stemmed from them, and indeed the acceptance of monetarism by many people as a political panacea is also in part due to our experience of near hyper-inflation in the

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'70s. Unfortunately, if we are not very careful the cost of applying monetarist theories can become the curse of the '80s.

For, whilst inflation remains a serious problem in Europe, and we must not play down the threat it continues to pose to the stability of our economic and political institutions, it is not now, in my view, our most urgent problem. It has become increasingly clear that the overriding problem of the 80s in Europe will be that of mass unemployment, and that the principal thrust of our economic activity must be in the creation of new jobs. Because of the horrors of the depression of the '30s, the pursuit of full employment became one of the principal goals of most, if not all, European Governments in the post-war period, and indeed in the 25 years following the war, the level of unemployment in Europe remained at a very low figure indeed. Most European Governments sought to keep unemployment down to between

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2 and 3%, whereas in the United States it was generally accepted that a figure between 5 and 7% was an acceptable level of unemployment. Recent developments in the employment field have, therefore, come as a great shock to most Europeans and have delivered the body politic a very severe blow. For the way in which unemployment has risen in the past 3 years is appalling.

We have moved from some 6 million unemployed in 1978 to over 10 million at the present time, and it has been estimated that it could be over 15 million by 1985. Already in Britain alone the figure now stands at 3 million, and the latest figure we have for the European Community as a whole shows an increase in unemployment of some 500,000 in one month. We are constantly failing to create enough jobs. Since 1975 the rate of increase in the labour force has been almost  $2\frac{1}{2}$  times greater than the increase in available employment. Not only have the numbers of unemployed increased

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alarmingly, but the position of the unemployed has also altered. The worst-hit sections of society have been the young, women and workers over 50, and this is likely to be a persistent feature of employment patterns unless a major improvement in the overall situation takes place.

It is an unfortunate fact that, for most workers in Europe over 50 years of age who are at present unemployed, there is a real risk of their never finding work again. That means that we are going to be faced with increasingly large numbers of people suffering from the effects of long-term unemployment, and for some they could be unemployed for a decade or more. At the other end of the scale, unemployment among young people has increased at a staggering rate. There are now over 3 million young people unemployed within the European Community, and many millions

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still at school

still at school know that the same fate awaits them. This is probably the most important group among the unemployed, because if all we can offer to large sections of our young people is no job, no hope, no future, then we are putting the very bases of our society at risk. It is because of the serious nature of this problem that the Member States of the Community have recently come together to see if a co-ordinated strategy on employment cannot be devised. There is a growing recognition that our economic problems require a radical solution. It is accepted that, when the recession is over, there will be no going back to the previous pattern of economic activity. The changes which have come about in the traditional industries of Europe - steel, ship-building, textiles etc. - are permanent changes, and the restructuring that has taken place in these industries is here to stay. This means that we are called upon during the 1980s to create literally millions of

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new jobs, and this is going to be a most daunting undertaking. Part of the problem of coming to terms with our economic situation is that the European Economic Community has difficulties in adapting its institutions to meet these new challenges. As I said earlier, when the Economic Community was established, the main thrust of its activities and an overwhelming proportion of its resources were to assist agriculture. Whilst the nature of our problems has changed unfortunately the pattern of our activity and expenditure have remained the same. And thus we have a situation whereby some 65% of the Community's own resources are devoted to the Common Agricultural Policy, and only 15% are spent on what are called 'structural policies', that is the Social Fund, the European Investment Bank and the Regional Fund. So one of the urgent matters facing the Commission is the need to introduce radical reform so that we can reduce the proportion of

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real resources going to the Common Agricultural Policy and release it so that it can be used primarily in the employment field, in job creation, vocational training, small business development etc. Indeed the struggle that is going on within the Community to bring about the reform of its institutions and its budget is in many ways a microcosm of the struggle that is going on within Member States over ways in which to combat the current recession. If we fail to achieve the reform within the Community, then it will be a most serious blow to Europe and will increase the growing scepticism over the value and relevance of the Community to Europe. I say this with some feeling because, as I think most of you know, the party in Britain to which I belong has already committed itself to withdrawal from the Community, and intends to pursue a policy of protectionism based on a siege economy. And this is a danger which will become more serious the longer the recession continues. For there is a growing belief in some Member States

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that they can blame the Community for their economic and political difficulties. This is also accompanied by the notion that it is possible to avoid the realities of the international economic system by the adoption of simplistic protectionist policies.

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The growth of protectionist sentiment in both Europe and the US is a most worrying development. Whilst Governments continue to support liberal trade policies and are committed to the maintenance of an open international trading system, it is equally true that the advocates of selective protectionism are getting a more respectful hearing now than they did some years ago. I have been interested to note the development of the reciprocal trading theory which seems to be attracting more and more interest from US Congressmen, and indeed some Administration officials. Part of the reason for this is obviously the world recession itself. With a diminution in world trade and a general decline in economic activity, we are all worse off than we were. In Europe, however, we believe that we have got two somewhat different sets of problems facing us. As far as European/Japanese trade relations are concerned, we experience much the same difficulties as the US has with Japan. Whilst the Japanese authorities continue to enunciate their commitment to free trade, what they are really doing is practising unfair trade. Not only does their fanatical obsession with the need to rack up massive balance of payments surpluses

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de-stabilising element in world trade; they also effectively close their domestic markets to their trade competitors. When one looks back over the past two decades, the bitter disputes that have taken place between the European and Japanese trading authorities, and the promises which these disputes have produced from the Japanese, clearly indicate that basically the Japanese believe that they can continue business as usual. Trade negotiations with the Japanese in recent years have produced many promises but little progress. There is also another very worrying aspect of Japanese trade practices, at least as far as Europe is concerned. There is evidence that the Japanese are engaging in unfair trading practices which are aimed at the very destruction of certain industries in Europe. This takes the form of the flooding of markets with allegedly below-cost goods with which domestic producers cannot effectively compete. As a consequence of these activities, it is becoming more clear that in a relatively short period of time Europe will be forced to erect some form of selective trade barriers against Japan. These would be aimed at protecting, for example, the motorcar industry, and at assisting the development of our infant new high technology industries. It is my

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view that these protective measures against Japan are the right things to do. Because of the way that the Japanese insist upon managing their international trade, it is in fact impossible, with the best will in the world, to let them participate in an international free market. Unfair trading practices in the end must be dealt with by measures aimed to protect one's own domestic market.

Unfortunately, the situation between Europe and the US is different from that of our relations with Japan. As you know, there are at present a number of most contentious issues worsening trade relations between us. The current row over European steel imports into the US, and the constant conflict over agricultural exports just tend to highlight a worsening situation. There is a growing feeling in Europe that US monetary and economic policies, as carried out by the present Administration, are aimed at securing shortterm advantages to the American Government without regard to their effect on other countries, and particularly the damage they are doing to your friends in Europe. Such matters as the increased national deficit, the massive increase on defence spending, the policy on currency valuation, and above all the high interest

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rates which have been sustained over the past year or so, are regarded by many European leaders as being weapons that, wittingly or not, are helping to destroy the economies of Europe. As a senior French Minister recently commented, through the pursuit of these policies, and particularly the high interest rates, the US is exporting its recession to Europe.

It goes without saying that the Commission of the European Community, whose very existence is based upon the concept of free trade and an open market system, will resist these protectionist pressures. But we all recognise that in a period of economic recession the short term benefits that can accrue from such a policy as selective protectionism appear more and more attractive in the minds of many who fear what the future holds. It is, therefore, of the greatest importance that the United States, Japan and Europe devise a method of trading with one another which is better balanced and basically fairer than the present situation.

In spite of the gloom of recent years and the uncertainty of our economic future, the European Community has seen over the past 8 years a degree of

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political cooperation between the 10 Member States which is most heartening. Technically speaking, international affairs are not to be found within the purview of the Treaty of Rome. It was one thing to develop a Common Agricultural Policy, but not, particularly when General de Gaulle still walked the world stage, to develop a common foreign policy. This formally remains the position today, but the reality is quite different. Through the Foreign Affairs Council, and through many informal meetings, the Governments of the Member States are developing a very effective method of consultation and cooperation. In the world fora, there is on most important issues a European Community view. And this, I would suggest, is not only good for Europe but is also good for the international community. I saw at first hand when I was at the United Nations the increased impact that the Member States of the Community had in the UN by speaking as one voice. And I believe, given the stark divisions that exist in the world, that a unified European voice has got a major moderating role to play. So, without expecting Europe to develop a common foreign policy as such - national interests obviously continue to exist within the Community and must be

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given due account - I confidently look forward to further developments in the field of political cooperation.

Oddly enough, as the Member States cooperate more closely on international questions, the greater seem the strains and divisions which are developing in the Atlantic Alliance. One could argue that greater political cohesion amongst the European members of the Alliance is bound to change the nature of their relationships with the United States. I believe there is some truth in this, and expect the European Members will want to be consulted more frequently and seriously on issues than they have perhaps in the past. But I am bound to say that I believe that the difficulties the Alliance is experiencing over nuclear strategy, over Poland, over the Middle East, is predominantly the responsibility of the United States Administration. I have a growing concern as to how the Reagan Administration perceives its European allies. There seem to be important voices in the present Administration which conceive of the United States' role in the Alliance as being not one of leadership but one of dominance.

If I might say so, the recent unfair leaks of Secretary Haig's remarks to senior State Department

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officials tend to confirm both the overbearing, and at the same time naive, attitude to European perceptions of some of our current international policies. As one who has been employed by my country to be at times less than totally frank and honest, I am sure that Lord Carrington will not let Al Haig's description of him as being a "duplicitous bastard" affect Anglo-American relations. I don't even think the allegations that the British were lying in their teeth over obstacles to the creation of a Sinai force will have any great impact on our traditional friendship, but I do think that such remarks as "our European friends are cowardly" can do great damage within the Atlantic Alliance. There is real anxiety in Europe that very senior members of the present Administration actually believe that Europe's opposition to Soviet imperialism is to be found wanting. They suspect that many members of the Administration regard them as being "weak sisters" in their dealings with the Soviets.

I think that this was perfectly demonstrated in the public dispute that took place between Chancellor Schmidt and President Reagan over Poland. Whatever the right or wrong of that issue might be, it seemed to me that the President in his comments on Chancellor

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Schmidt and the West German position appeared to consider he was addressing his remarks to a subordinate. Such actions place enormous strains on the Alliance at the very time when the Soviet Union seems ready to engage in acts of adventurism. I believe, therefore, that in the coming months it will be essential for members of the Alliance to re-evaluate their common position on these fundamental international issues. I think, particularly on the part of the United States, a great effort must be made to reassure their allies that President Reagan is not a "shoot from the hip" politician who seems to think that confrontation with the Soviet Union must be his first option.

I also believe that all members of the Alliance are going to have to make much greater and more successful efforts to explain to their peoples the nature of our nuclear strategy. For I believe that one of the things that most threatens the Alliance and indeed NATO itself is the upsurge of anti-nuclear and neutralist sentiment that has developed in Europe in the past couple of years. Those of us who have lived for over a quarter of a century under the protection of the nuclear shield tend to forget that

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young people do not always see the world as we do. They do not regard the Soviet Union as a major threat to our liberties because they have only ever experienced the Soviet Union under the restraint of the nuclear deterrent. They don't understand the contribution the United States made to ensure freedom was maintained in Western Europe: to them the Marshall Plan and the North Atlantic Treaty Organisation do not affect their judgement of America in the same way as Vietnam and US involvement in Latin America. I find it quite alarming that this commitment to unilateralism and neutralism is growing not only in the way-out pressure groups but is also manifesting itself in organisations like the Labour Party and Liberal Party in Britain and is growing more influential in the SPD in Germany. To those of us who understand the real nature of the on-going Soviet threat, a mutual defence arrangement based on NATO and backed by the nuclear deterrent remains a vital factor in the maintenance of world peace. A policy of unilateralism and of a neutral Western Europe will not bring peace but makes war more likely. And that seems to me to be the essential message that we have continually got to get over to the young. It goes of course without saying that if we are to persuade people that there are no

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easy solutions like neutralism to the problems of the international community, we have got to pursue policies that will give young people some sense of hope. I am completely convinced that the attraction of unilateralism and neutralism is intimately related to the economic conditions to be found in the Community. If young people conclude that the future holds little for them, then it is not surprising if they involve themselves in hopeless politics. I recently talked to a redundant steel worker in South Wales who said to me "I don't want weapons; I don't want nuclear missiles; I just want a job". It is in providing him and the millions like him to be found within the Community with a job and therefore a hopeful future that will present the greatest challenge to us in the coming decade, and it is a challenge which we must meet.

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