

62nd NATIONAL FOREIGN TRADE CONVENTION

ADDRESS

BY

MR. FINN OLAV GUNDELACH

MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITY

"THE COMMUNITY'S RELATIONS WITH THE OUTSIDE WORLD"

THE WALDORF-ASTORIA, NY

NOVEMBER 17, 1975

Mr. Chairman,

This Convention meets at a crucial time - a time which may in retrospect come to be seen as marking a turning point in international economic relations.

Over the past two years, in the period since the commodities boom and the dramatic rise in the price of oil in 1973, the world has witnessed an intense debate about the future shape of the international economy. This debate has been marked by passages of acrimony and tension. But it has resulted in a much greater awareness of the extent to which those who have been participating in it have shared interests and stand upon common ground. At Rambouillet this last weekend, here in New York at the United Nations, in Geneva at the Multilateral Trade Negotiations, in Paris at the Conference that will be starting next month and in other forums around the world a new consensus built upon those common interests is being sought. And it is at this crucial moment in world economic affairs that we are meeting today.

*

*

*

The debate over the past two years has forced us to re-examine many of our most fundamental assumptions and

/presuppositions

presuppositions. They are being challenged from two distinct directions. On one side we have all been forced to come to grips with the developing world's criticisms of the post-war international economic system, and its demands - backed by growing economic strength - for the establishment of a "New International Economic Order" in the relations between the world's industrialized North and its under-developed South. And on the other the societies which constitute the developed industrialized world itself have been faced with a prolonged economic crisis combining levels of inflation and unemployment unprecedented in post-war history. And this crisis has given rise to powerful protectionist forces which threaten to corrode the existing system of international trade and payments - the very system upon which the post-war prosperity of the rich North has been based.

*

*

*

Let me deal first with the challenge from the developing world - the challenge which directs us to create a "New International Economic Order".

At the philosophical level we are faced in the debate on this issue by two distinct conceptions of the purpose of international arrangements in the economic sphere.

/According

According to one of these conceptions - which we in Europe described as 'liberal', but which you in America would, I think, describe as 'conservative' - the extent to which the world economy is regulated by international agreement should be strictly limited. The purposes of such agreements, the function of any institutions that may be set up, should be merely to provide a framework and an orderly structure of legal disciplines within which natural economic forces may work themselves out and enterprise may seek its reward.

So far well and good - but the argument goes on beyond this to conclude that because the pattern of international relationships which results from the interplay of economic forces is most efficient when it is most spontaneous, whatever happens in the world's economy should be as little as possible influenced or predetermined by the framework defined in international agreements. In other words, politics and the role of governments should be reduced to a minimum. And this is a proposition which - whether regretfully or otherwise - we will all recognise as being increasingly difficult to apply in the world as it is today.

If this 'conservative' conception of the purpose of international economic agreements represents one pole in the debate about the future development of the world economy, the

/other

other pole is to be found in the concept which underlies the demand from the developing world for a "New International Economic Order".

This philosophy is essentially dirigiste. Its view of international economic agreements is not that they should aim to constitute a minimal framework, but that they should seek to define a set of agreed objectives towards which the development of the world economy should be deliberately planned. Whatever those objectives - and the debate about the United Nations "Charter of the Economic Rights and Duties of States" was essentially a debate about what they should be - the fundamental assumption is that economics should be subordinated to politics. That is to say, that the principles and institutional structures of the world economy should be the instruments of a plan decided at the political level, rather than a set of means to the orderly progress of free and spontaneous economic activity.

*

*

*

In the debate about these profound issues the European Community has deliberately steered a middle course. Take first the demands for a "New International Economic Order": we in Europe believe that its advocates must recognise that the

/pattern

pattern of international economic relations cannot simply be determined by politics and by agreements between governments.

The fact is that there is in nature an ultimate economic logic which cannot merely be over-ridden by political decisions. One of the features of that economic logic is that in the long run investment and growth will not occur when there is no freedom to make profits and to enjoy them. Another is that there is a natural interdependence between buyer and seller: the buyer must go without if he cannot afford to pay the seller's price - but if the seller cannot get his price he too must go without. So both seller and buyer are worse off if the price is set too high or if the market is otherwise distorted by too much political interference. These old lessons are now having to be painfully learned again - for recent months have provided a number of regrettably vivid illustrations of their point. Happily the right conclusions are now being drawn.

For as we have seen over the past two years the international economic system is a fragile and delicate mechanism whose operation can be seriously impaired by strong-arm tactics. The world economy must of course be properly organised, and it must be endowed with the institutions it requires to operate smoothly and successfully. But it will not operate either smoothly or successfully under a system of

/international

international agreements which imposes all the obligations upon one side and gives all the rights and privileges to the other. And I believe that it would not operate at all if we were gratuitously to throw away the achievements and the experience which we have accumulated over the past thirty years in the existing patrimony of international agreements and institutions. We need to build on the foundations we have already laid: it is neither possible nor necessary to move to a new lot.

What, then, of the alternative philosophy which aims to provide no more than a mere framework for the operation of an international market economy?

In the Community we yield to no one in our commitment to the concept of an open world economy. Economic logic tells us that now and in the future as in the past the best and most efficient use of the world's stock of resources - whether human resources of skill and inventiveness, or the resources provided by nature - is that which is brought about by a progressive international division of labour. This is all the more true as we pass from an era of plenty to an era of raw material scarcity.

But the development of an open world economy requires something more than a mere opening of the door to world market forces. We have to reach beyond that concept to a new vision.

/We must

We must set out to ensure that the whole sum of the world's resources is increasingly engaged in the fulfilment of man's aspirations for a better and richer life. And to do this we must make a constructive response to the desire of the developing countries to industrialise and to play a greater and a more well-rounded part in world trade than they have done in the past.

We are, I believe, bound to recognise that an excessively conservative approach to the organisation of the world economy will not work satisfactorily when there are serious differences in the relative power of the various forces in world economic affairs. This is the case whether we are speaking of the power of the oil producers' cartel relative to the consumers of oil in both rich countries and poor, or whether we are speaking of the power of industrial manufacturing countries relative to that of the primary-producers. In both cases there is an imbalance which can only be restored by a degree of deliberate management in our economic relations - management based upon a certain measure of political agreement.

As things stand today we cannot rely exclusively upon the self-equilibrating forces of the world market to bring about that growth of industrial activities in the developing

/world which

world which is increasingly necessary if the countries of the Third World are to meet the rising expectations of their peoples. Nor for that matter can we rely exclusively upon a spontaneous balance of world market forces to resolve the problem of the supply and price of energy. Both the need to encourage and direct the transfer of resources from the rich world to the poor, and the need to secure the world's access to essential supplies of energy at reasonable prices impel us in the same direction - towards the further development of our existing international economic agreements and institutions so as to enable them to perform the new functions required of them in a new age.

Adjusting to the accelerating economic progress of the developing world will of course be a difficult and painful process. But if we do not make the effort to respond constructively to the challenge of the developing world we would be faced, in the not very long run, with a disastrous confrontation which would be infinitely more painful and politically and economically damaging than the process of structural adjustment which is the only alternative to it.

There is a useful Chinese saying which expresses the need to pursue a balanced approach to life's problems. We must walk, say the Chinese "upon two legs". In Europe we believe that the conclusion to be drawn from the debate about the ordering of the world economy is that we must indeed walk

/"upon two

"upon two legs": the economic leg and also the political leg. And this is not an arbitrary conclusion - not merely a sort of splitting of the difference. All the experience of the development of 'social market' economies in Europe - as well as all our experience of recent developments in the outside world - tells us that we must now build a greater political element into the structures around which the international economy will develop in the future; while at the same time we must continue to maintain a healthy respect for economic realities.

This is the spirit in which the Community has tried to move the debate away from rhetorical and philosophical confrontations to specific issues. A wide area of common ground can now be recognised when we look at concrete proposals for action, whether in respect of the development of a continuing dialogue between oil producers and consumers, or in respect of commodity agreements and the stabilisation of the export earnings of raw material producers, or the promotion of the trade and industries of the developing world and the improvement of their agricultural productivity. Our task over the next few months is to pursue these proposals to a successful conclusion in practical solutions built upon the common ground that we have now discovered.

*

*

*

/The outlook

The outlook for the development of a more confident and equal relationship between the rich North and the poor South thus looks better than it has done for some time. But on the other hand, within the group of countries that makes up the industrialized 'First' World, I am afraid that there have recently emerged a number of signs of serious tension. The fact is that while we are groping our way towards a new consensus with the less developed countries, within our own societies there appears to be an increasing danger that protectionist tendencies will undermine the old consensus - which has served us so well for thirty years - upon the need for an open world economy.

The world-wide recession is of course largely to blame for this. The contraction of their markets at home and abroad has brought many of our most important industries to a point of crisis graver than anything they have known since the war. All over the world it is plain that the malign effects of this recession - and in particular unemployment, underused resources, and unsatisfactory profits - will continue for a considerable time to come. And, although there are signs of an upturn now appearing in the United States, we must all recognise that as the effects of the contraction of markets are brought home we are entering upon what must - at least in

/trade policy

trade policy terms - be regarded as the most precarious and potentially disruptive phase of this recession.

For the cry for protection is one of the inevitable and quite understandable results of the situation in which we now find ourselves. We hear it from many quarters in the Community. And we hear it also in the United States. It challenges not only our commitment in Western Europe to an open world economy, but also your commitment to that concept here in the United States.

Nevertheless, in this matter there is an important - indeed, a crucial - distinction to be made between protectionist pressures and protectionist measures. So far both in the Community and in the United States those responsible for deciding policy have on the whole been able to avoid the adoption of protectionist measures. But we are all facing great and mounting pressures. Our task is to ensure that these pressures are not translated into concrete measures of protection. In this common task we are all responsible - both the Community and its member states, and the United States itself.

Looking at the situation in the United States, the Commission is of course very concerned about what has been happening over the past few months on the trade front. We have been given some reason to fear that in America at present the road that leads from the exercise of pressure to the

/implementation

implementation of protectionist measures is dangerously open. And this cannot but have the gravest implications for us in the Community in view of the amount of our trade with the United States that is being threatened by these pressures.

The basic fact is that until the Administration's recent decision to dismiss the complaints concerning the Community's exports of rolled steel to the United States over four and a half billion dollars worth of Community exports - approaching one quarter of the value of everything we exported to you in 1974 - was the subject of complaint under the Trade Act. Even today well over three billion dollars worth of our trade with you is potentially at risk. And all this is happening - paradoxically - at a time when the United States is enjoying a record surplus with the Community, amounting to more than \$3 billion in the first six months of this year.

These are formidable pressures, advancing on a wide front. But at the same time it is clear that so far - with the notable exception of cheese earlier this year - the Administration itself has not surrendered to these pressures. There is in fact no sign that your Government's commitment to a liberal world trading order is slackening - indeed only a few months ago it renewed its support for the OECD Trade Pledge against beggar-my-neighbour protectionist policies. The dismissal
/of the

of the complaints concerning rolled steel also afforded welcome evidence that the Administration is putting new vigour into its efforts to resist the pressures that have been building up.

The moral we must surely draw from the present situation is that in a period of exceptional economic difficulty governments everywhere must be especially active not only in resisting protectionist pressures but also in explaining to their citizens exactly why the protectionist soft option must be resisted. I might add that in the Commission we appreciate full well that this applies as much to ourselves in Europe as it does to the United States. This is why we have been taking a strong line over Sweden's recent decision to protect its shoe industry. For if any of us succumbs to these pressures in our own trading policies how can we hope to persuade others to hold the line?

The case is simple. We all know that the day of recovery can only be put off, not advanced, by measures to export our problems. We also know that there is a certain momentum in these affairs that will make it difficult, if we yield ground now, to make it up again later when recession at last gives way to recovery. And we are all bound to recognise that the interdependence of the different elements

/of the world

of the world economy today is far greater than it was in the 1930s when the world-wide retreat into protectionism did such great harm to all our economies and indeed to the very basis of democratic political life in our societies. The damage which we did to one another then inadvertently and in ignorance is as nothing compared to what we would do to ourselves if we were now to take that road again.

*

*

*

Underlying the two challenges that face us is one basic economic problem. The re-establishment of high and stable economic activity and employment together with sharply reduced inflation must be our predominant common goal in the industrial democracies. No single economic factor is as important for the success of the development plans of developing countries than such renewed economic growth.

But how can industries be expected to increase production and investment if they can't sell? How can industries and workers be expected to show the vitally necessary restraints regarding costs and salaries if they are not informed, consulted and assured that their sacrifices are meaningful and commonly shared? How can economic operators dealing on foreign markets be expected to plan ahead - even if we win the battle against

/protectionism -

protectionism - if they are confronted with wide swings in economic and financial policies and in particular in exchange rates often unrelated to basic economic factors? How can producers of basic commodities, including food, be expected to press ahead with production and investment without a reasonable security as to their remuneration and buying power?

The answer to these fundamental questions can only be found in a wider strategy as developed with the participation of all strata of our societies and across national boundaries. No obstacle to recovery is more formidable than lack of faith in our ability to overcome. Political leadership based on a wide consensus, nationally and internationally, is the only answer.

Mr. Chairman : the challenges which face us are rooted in our economic situation, but these are not essentially just economic challenges. The problem is not one of economics: it is one of politics. And as such it is ultimately a challenge of the same type whether it is being posed in the economic relations between North and South, between the developing countries of the "Third World" and the industrialized countries of the "First World" or whether it relates to the relationship between the industrialized nations themselves.

Our relationship with the developing countries is being
/cast in a

cast in a new political framework by the demands of the Third World for a "New International Economic Order", and by our attempts to find a new consensus in response to those demands and in recognition of the facts of the fundamental interdependence of our economies. An improved framework is also required for our mutual and even more radically interdependent relations within the industrialised "First World". On all sides the distinction between international and national politics is dissolving, and economic issues are becoming the very stuff of international politics.

To overcome the tensions inherent in this situation we will need to develop new national and international mechanisms for weighing the implications of domestic political and economic decisions for the international economy as a whole. We will have to develop a framework for the joint management of our distinct but convergent policies. We will need to ensure that public opinion is much better informed. And we will have to build up new reserves of mutual trust and confidence.

No one should imagine that in our efforts in this direction we are working merely to ensure our economic well-being. The fact is that in the present age, accustomed as we are to an ever-expanding horizon of material expectations,

/the link

the link between economic well-being and a tranquil and self-confident political order is more intimate than perhaps ever before in history.

During the period of economic crisis before the Second World War it looked to many as if the mainspring of our free and democratic way of life in the West had been broken: as the barriers went up on every side it seemed that the world was in the grip of economic forces - and therefore, eventually, of political forces - beyond its control. But in the end we found the political will, the imagination and the strength, to meet the challenges which faced us. And the consequence has been that over the past thirty years the open economy, the open society, has once more repeatedly given proof of its superior humanity, its superior dynamism and creative power.

These are the values for which we stand; and our achievements over thirty years show clearly how we can in our generation play our part in making good the vision of those who went before us.