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On April 9, 1987 the British Foreign Secretary, Sir Geoffrey Howe QC MP, spoke to the Chicago Council on Foreign Relations at the Mid-America Club

In his speech Sir Geoffrey said that Americans and Europeans must exploit their long-standing partnership for the common good. He also warned against the dangers of protectionism; suggested that all those who spoke of the "widening Atlantic" or advocated a loosening of transatlantic bonds were misguided. The Foreign Secretary reaffirmed the importance of NATO's policy of nuclear deterrence and acknowledged that Europeans should take a greater share of the responsibility for their own defence. Europe remained the first line of America's defence. He concluded that the Prime Minister's reception in Moscow demonstrated the value to the Alliance of tough European talking and that current stresses in the Alliance were manageable if handled sensitively.

The following is the text of his speech :

Introduction

"It may seem odd that I should be making a speech on 'Transatlantic Relations' in a city over 700 miles away from the Atlantic.

"But you do not need me to tell you that, although Chicago is in the middle of America it is anything but an inward looking city. You have long done business on a worldwide scale. Your financial markets and those of the City of London are in continuous contact by computer and telex. Your academic institutions have produced new ideas on agriculture, economics and literary criticism that have rapidly spread to Europe. So what better place could there be to take stock of US/European relations ?

/And ...

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"And what better time? For 1987 is a special year not only for the citizens of Chicago as you celebrate your 150th anniversary but also for West Europeans. In this same year, we celebrate the 30th anniversary of the Treaty of Rome which founded the European Community and the 40th anniversary of the Marshall Plan - two landmarks in the economic and political reconstruction of Europe and in US/European relations.

"It is right that we should remember how European integration began and the special role that the United States played in promoting that process.

A 'Widening Atlantic'?

"For today there are those - on both sides of the ocean, as sometimes before - who are beginning to talk about the 'widening Atlantic'. To ask, for example, whether the United States wouldn't do better to go it alone and leave the feckless Europeans to their own devices. Some Americans would like to put up the barriers against European imports. Others argue that America will in future be able to defend itself without the help of its Allies, that Fortress America is a viable policy option. And on the other side, there are some Europeans - largely, I am happy to say, on the political left - who see some US policies as selfish and irresponsible to such an extent that they would like Europe to cut loose altogether.

"I want to tell you today why I think those who hold these views are misguided, why Americans and Europeans still need to work together to promote the democratic values which, twice this century, we have defended together.

The Challenge to Prosperity and Security

"Freedom, democracy, justice. Those shared values today face challenges from two different directions:

- first, the threat to our common prosperity posed from within our system by economic mismanagement, most notably by the forces of protectionism.
- second, the threat to our common security posed from without by the Soviet Union and its Communist allies.

"Let me begin first with the threat to our prosperity. And by way of illustration, let me say a word about my own country.

/Britain's Economic Revival ...

Britain's Economic Revival

"Ten years ago we in Britain were at the bottom of almost every international economic performance league - wrestling with overmanning, strikes, low management. We were in poor shape to compete in world markets - unproductive, uncompetitive and inward-looking.

"This Government came into office in 1979 determined to put this right. In doing so, we looked to your enterprise economy for inspiration.

"We abolished exchange controls. We scrapped controls over pay, prices, dividends and industrial development. We cut back or abolished a whole raft of taxes on income, enterprise and capital growth. We stopped pouring public money into uncompetitive industries, which were making heavy losses. We privatised companies that had unnecessarily been made wards of the state. We attacked overmanning and trade union restrictive practices. We put the emphasis on the creation of new jobs in the service sector and the 'sunrise' industries.

"It has not been without price. We have had to face a high level of unemployment, but we have turned the economy around. Output, investment and standards of living are all at record levels. Profits are well up. We are playing a full, indeed a leading, part in the European Community.

"The key to our new found growth and rapidly advancing prosperity has been found not in retreating behind trade barriers, but in taking them down. We have not closed our economy, but opened it. This has been our sure path to success.

"This success means good business for you as well as for us. Britain is now the largest direct investor in the United States and America the largest direct investor in Britain. The European Community is the largest world market for American exports and vice versa.

"In short, the American and European economies are inextricably linked, to our common benefit. And, so long as we keep them open and stable and properly managed, to the benefit of the rest of the world as well.

The Success of the Open Trading System

- "Contrast the advantages of an open trading system such as ours with the closed, centrally planned economies of the Soviet bloc. Almost forty years after they turned their backs on the offer of American Marshall Aid, most Eastern European countries are still living with the kind of economic deprivation which most Western European countries had left behind them by the 1950s. Food rationing and chronic power shortages are still common. In Rumania ordinary people are still using candles and gas lamps - when they can buy them - to cope with daily power cuts.
- "Elsewhere in the world, countries like Ethiopia which have sought to adopt the Marxist model have failed catastrophically. And when famine came, it was not the East which came to Ethiopia's assistance. India gave ten times more food than the Soviet Union.
- "The world has not failed to draw its conclusions. The tide of socialist economic theory, which Marx and Lenin thought would be unstoppable, is on the ebb.
- "Post-war economic liberalism - which gained much of its recent impetus from the work of Milton Friedman and others of the Chicago School - is now spreading throughout the rest of the world.
- "More and more countries are coming to realise that sound economic policies are essential for genuine economic recovery. That problems do not go away simply by throwing money at them.
- "Take aid, for example. Of course, the international community has a duty to help those less well-off. But too often in the past aid to poorer countries has been misused on unrealistic and ill co-ordinated projects. Too often it has failed to benefit those most in need.
- "Of course, Governments of recipient countries have a matching responsibility to ensure that their economies are geared towards using economic assistance to maximum effect. This is increasingly well understood.
- "African governments, for example, went a long way towards recognising this last May when they presented to the United Nations' Special Session on Africa their 'African Priority programme for Economic Recovery'. A larger role for markets, incentives, realistic pricing,

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private enterprise, inward investment in search of profit: these were some of the keynotes. This African approach was moreover supported by a large group of other developing countries. This augurs well for the future.

"Yet aid and co-operation are not enough to bridge the divide between the richer and poorer countries. Fragile economies and emerging democracies need most of all an economic environment - an international system - that is both stable and flexible. Stable enough to engender confidence: flexible enough to accommodate differences in economic performance.

"The major industrialised countries, with their dominant role in the world economy, have a special responsibility. They must prevent the debt burden suffocating expansion in the developing countries. And they must avoid protectionism.

The US Budget Deficit and Protectionist Pressures

"If we are to lighten the debt burden on the poorer countries, then we need to restrain our own demand for scarce capital. That is the only way to keep down the cost of borrowing. This is why the world has, for some years now, watched with mounting dismay as your country, the richest in the world, has become the world's largest importer of capital.

"For in this way the formidable federal deficit - I have been making speeches about it throughout the five years since I became Chairman of the IMF Interim Committee - has doubly damaged the free world economy: by keeping interest rates higher than they would otherwise have been; and by sustaining your huge trade deficit - so prompting protectionist pressures to control or stifle imports into the United States.

"It would be ironic if, at the very moment when the Soviet Union and the East European countries are moving very tentatively towards a loosening of economic controls, the US economy were to move in the opposite direction.

"The Soviet bloc is the locus classicus for protectionism and State control. Nowhere is the dead hand of protectionism and State control more stifling in its effect: it is not difficult to understand why the more imaginative Communist leaders are now convinced that drastic economic and social changes are needed. Last week I heard for myself what Mr Gorbachev plans to do to restructure the Soviet economy and Soviet society to

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make the country more humane, more enterprising and more competitive. He has a daunting task for he has to remove decades of bad management and decay. But he knows where he is going and is full of determination. I admire his courage and wish him well.

"But the very same temptation to close the doors which has characterised the Soviet system can be all too beguiling here in the West. The newly industrialised countries of the Pacific are coming up fast and threaten to outstrip us, both in technology and competitiveness. Here, in the United States, even more than in Europe, politicians face increasing pressure to act against foreign imports.

"Politicians in democracies have a great responsibility to resist the siren calls from special interest groups to interfere with the market in this way: trade unions, farmers, industrialists, public employees. Groups such as these can often whip up public opinion in their favour: accusations of foreign cheating appeal to the narrow minded streak in all of us - and each intervention seems to cost the individual voter very little.

"But if these pressures are not resisted - and only politicians can resist them - then loss of freedom and increasing economic sclerosis are the inevitable results.

The Case Against Protectionism

"There are plenty of good short-term arguments against protectionism:

- it puts up prices;
- it reduces growth at home and overseas;
- it will make the international debt problem impossible to solve.

"But in the end the fundamental argument against protectionism (and all forms of intervention in the market) is that it destroys choice and perverts democracy. Free trade is good for all. It allows us to help ourselves while helping others.

"This may invite the retort: Then what are you doing threatening to act against Japan? Certainly Britain and its Community partners, like the US, are deeply concerned at the lack of access to the Japanese market. Certainly, we are taking steps, individually and collectively, to

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try to remedy this situation. Yet the objective is not to close markets, but to open them; not to start a trade war, but to work together to expand the open trading system. This is the framework in which Britain and its European Community partners approach the matter. We proceed on the assumption that there is an unbreakable link between the open society and the open trading system. It is not in our view unreasonable to expect a great liberal democracy like Japan to acknowledge and sustain that link: a link on which the prosperity and liberty of all true democracies rest.

Maintaining the Open Trading System: A Common Action Programme

"If we are to maintain the open trading system that has brought us today's prosperity - and we must - then the major industrialised countries need to agree a common action programme, and carry it into effect:

- First and foremost we must all reject protectionism, whether in Washington, Brussels, or Tokyo;
- Japan must open up its domestic market and boost domestic demand;
- the United States must substantially reduce its budget deficit - and soon;
- the European Community must reject short-sighted internal fixes like the proposed oils and fats tax, which can only damage the world trading system;
- we must all take sustained and far-reaching action to curb farm surpluses, subsidies and protectionism;
- we must all work for currency stability, building on the successful Plaza and Louvre Agreements.

"Explicit economic disciplines of this kind are not easy for democratic countries to adopt. Last year's Nobel Laureate in economics, James Buchanan, writing with Gordon Tullock, a Chicago graduate, has powerfully illuminated the whole process of political decision-taking by his repeated insights into the dangers of the vote-catching market place.

"Politicians in democratic countries have a duty to remind the public that their own freedom has to be matched by respect for the freedoms of others.

/"If ...

"If we in the richer and better established democracies call into question the very structures that we ourselves set up, what effect will this have on developing countries who are just discovering the virtues of economic liberalism and democracy? It is our system, and our example, that has offered them the best hope of a more just and prosperous world?

"The pressures towards a "beggar my neighbour" attitude are strong. But a trade war would cause incalculable damage on both sides of the Atlantic, and to developing countries.

Prosperity and Security

"Perhaps you were surprised that I should have begun my speech by putting the threat from protectionism and the military threat on a similar footing. Yet prosperity and security are closely bound up with each other. The Soviet leadership shows increasing signs of having realised that a country cannot go on pouring massive resources into its war machine and denying its people the prospect of an improving standard of living. On the other hand, even the most successful economic system needs to be defended properly to give it the confidence to prosper.

"We in the West must ensure that disputes over trade do not undermine either our common prosperity or our common security. It would be sheer folly if quarrels over citrus fruit, pasta, small aircraft or textiles ever led Europeans to think that they might be better off without "trigger-happy American cowboys" or Americans to think that "those rich Eurowimps" should be left to cope alone with their own defences.

The Widening Atlantic?

"It may be tempting to dream of an America protected by a shield in space and no longer needing to rely on her Allies or to send soldiers to Europe for her own defence.

"And, of course, new scientific ideas constantly oblige all of us to reconsider the way forward.

The Importance of Nuclear Deterrence

"But we must not delude ourselves that NATO's policy of nuclear deterrence is about to become obsolete. As Mrs Thatcher reminded Mr Gorbachev in Moscow last week, Winston Churchill put it in

a nutshell when he said: 'Be careful above all things not to let go of the atomic weapons until you are sure, and more than sure, that other means of preserving peace are in your hands.'

"Europe is and remains the first line of America's defences. And we all need to continue to pool our resources to ensure our collective defence - a defence firmly based on the twin concepts of the Harmel Report: strength for deterrence and readiness for dialogue between East and West.

Alliance Unity Has Already Paid Off

"Western unity and determination to resist Soviet wedge-driving have already paid off. The Russians believed that Europeans would never accept the basing of US INF missiles on their soil. They could not have been more wrong.

"Then, when they realised that they would have to negotiate after all, the Russians made another miscalculation. They assumed that by linking progress on everything to SDI they could pin the blame for lack of progress on arms control on the United States. Again they were proved badly wrong. Like you the Europeans rejected this argument.

"So do not be taken in by those who come here to tell you that Europeans do not want the American nuclear umbrella.

"The fact is that the overwhelming majority of Europeans firmly believe in a strong NATO Alliance and effective defence. According to your own Council's survey of US public opinion the vast majority of Americans believe in that too.

"And when Mrs Thatcher saw Mr Gorbachev last week she left him in no doubt about the West's collective determination to maintain a strong deterrent capability. Just as she left him in no doubt about our willingness to discuss ways of achieving enhanced security at lower levels of armaments - and lower costs - on both sides.

"Of course, more confidence building measures of the kind agreed in Stockholm last September - and greater openness generally between East and West - would help to improve the overall security climate in Europe. But we still have a long way to go before we overcome the psychological damage of the Cold War years. Before we build up confidence between East and West to such a level that neither side feels threatened by the other.

Soviet Intentions and Capabilities

"The Russians tell us that their only military ambition is to ensure the defence of the homeland. But the Soviet invasion of Afghanistan showed that their idea of where their borders need to be drawn to make them feel safe enough can change without warning. The Chicago Bear is a good deal less alarming than the Soviet variety.

"We should not forget either that the great bulk of Soviet and Warsaw Pact military resources is deployed in or immediately facing the European theatre:

- 4.1 million out of 7 million personnel;
- 190 out of 250 active divisions;
- 51,000 out of 68,000 main battle tanks;
- 7,700 out of 12,000 tactical aircraft.

"That is not counting over 900 SS20 and SS4 warheads targetted on Europe that the Russians now say they will remove as part of the LRINF deal. Or the Soviet shorter-range nuclear missiles which would remain there even after such a deal. The case for Western, including US and Canadian, defence efforts to concentrate on Europe is clear. Reinforcements located in the West of the Soviet Union are only 300 miles from the East-West dividing line, but forces stationed in North America are 3,000 miles away. So Europe - and indeed the Alliance as a whole - cannot afford to bank on the arrival of US forces only after a crisis has begun.

The Importance of the US Nuclear Shield

"The US nuclear shield and the soldiers in Europe who guarantee its credibility are vital to the West's collective security.

"US and Canadian soldiers stationed in Europe are tangible evidence - especially to the Warsaw Pact - of Alliance cohesion and of our joint commitment to defend ourselves.

"Taking them out would undermine deterrence by sending the wrong signal to the Warsaw Pact; and greatly increase the risk of direct military attack; it would also expose the Western Europeans to the full force of Soviet intimidation.

Burden Sharing

"That, some Americans would argue, is primarily a European problem. So why don't Europeans take a

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greater share of the responsibility for their own defence?

"We should. I said precisely that in Brussels last month when I called for an equal second pillar of the Alliance.

"But we have to be realistic. There is no native superpower in Europe. France and Britain's strategic nuclear forces together make up less than 3 per cent of the superpower arsenal.

"But all Soviet nuclear systems, not just short-range ones, can be used to threaten Europe, and the risk of their being so used would be far greater without the deployment of substantial US conventional as well as nuclear forces.

"We might be able to reduce that risk by bringing the two sides' conventional forces more into balance.

"But bringing Europe's forces up to the Soviet level is hardly practical, if indeed it is desirable. And our leverage for bringing their level down to ours would hardly be strengthened by a unilateral troop cut.

"The other burden-sharing argument - that Europe's economic strength is now equal or close to America's - needs to be treated with some caution too.

"Separate states cannot make the internal transfers of resources that are possible within a single nation-state like the United States. It is not easy for Europeans (though we do try - and need to try harder) to make economies of scale greater than the national markets will bear.

"This makes the average defence production costs for individual European Allies higher than those in the United States. So, relatively, we spend more. Furthermore, from 1971 to 1987 European defence spending overall grew by 30% in real terms while US defence spending showed a small net decrease in real terms.

"Today, of the forces in place in Europe, we Europeans provide 90% of the manpower, 85% of the tanks, 95% of the artillery, 80% of the combat aircraft as well as 70% of the fighting ships in European waters and the Atlantic.

"The European allies also make important individual contributions to the West's overall political and military bargaining power.

/Mrs Thatcher's ...

"Mrs Thatcher's reception in Moscow last week showed the value of tough European talking. European voices speaking freely and with conviction in support of American negotiating aims add tremendous weight to your case.

Europe: Towards Greater Coherence

"Recent efforts to work towards a more coherent European voice on defence should not therefore be seen as a threat to US interests, or as a signal that Europeans would prefer to go it alone, but as a way of improving the overall strength of the NATO Alliance. There is no question of Europeans taking collective decisions on defence matters except with the United States, within the framework of NATO.

"Europeans are however gradually becoming mature enough and united enough to contemplate taking the kind of cohesive approach to our collective security that the US actively tried to promote after the Second World War.

"This is what Marshall would have wanted to see.

"So too would Ike, who told a London audience in 1951 that 'Europe cannot attain the towering material stature possible to its peoples' skills and spirit so long as it is divided by patchwork reinforced fences'.

"The work of European construction is still in progress.

Strains in the Transatlantic Relationship

"Inevitably there will be some stresses and strains in the transatlantic relationship. But they will be manageable if handled sensitively. They must not blind us to the values we share or to our deep underlying common interests. Nor should criticism of particular policies be mistaken for 'anti-Americanism'. The United States cannot expect its loyal friends and allies to be wholly uncritical. It is the very fact that our friendships are freely entered into and our policies agreed amongst us all that makes our Alliance so powerful and earns it the respect of the rest of the world.

"It has not been a feature of your country or of mine to retreat from challenges and I do not believe that we shall do so now. You Americans and we Europeans must continue to put our longstanding partnership to work for the common good. We must

/continue ...

continue to take the lead in maintaining the peace and managing an increasingly inter-dependent global economy into the 21st century.

"In 1963 a great American, John F Kennedy, sent a great European, Jean Monnet, the following message:

'Ever since the war the reconstruction and knitting together of Europe have been objectives of United States policy, for we have recognised with you that in unity lies strength. And we have also recognised with you that a strong Europe would be good not only for Europeans but for the world. America and Europe, working in full and effective partnership, can find solutions to the urgent problems that confront all mankind in this crucial time'.

"I cannot better that. I rest my case".

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