

ADDRESS BY COMMISSIONER MICHAEL O'KENNEDY

on

THE EUROPEAN COMMUNITY TODAY

TO A LUNCHEON OF THE

AMERICAN ENTERPRISE INSTITUTE

WASHINGTON, D.C. - 15 OCTOBER 1981

The European ideal has suffered considerably during the past decade. This is perhaps seen in sharper focus by those of us within the European Community than by our partners and friends in the world. The easy optimism of those who, at one time, imagined that Europe would move almost automatically towards some form of political and economic union has been cruelly shattered in recent years.

It is not enough, in my view, to ascribe this loss of confidence in ourselves -- for that is what it is -- to continuing inflation, with all the uncertainties that brings with it. Neither does the impact of successive oil price increases, daunting though they may be, explain our misgivings. Moreover, the widespread frustration generated by perceived social grievances, and which is partly reflected in the many recent changes in the political status quo on both sides of the Atlantic, will only go some part of the way towards explaining the phenomenon. We have quite simply lacked a sense of cohesion between Member-states and a sense of purpose for European development.

It was to respond to this challenges that the European Council, in May 1980, gave the Commission a Mandate to review fundamentally the range, operation and funding of Community policies. The Commission report,

in pursuit of this Mandate, was completed earlier this year and forwarded to the European Council on the 24th of June.

One of the major problems we faced related to the Community budget. For almost three years now, the expenditure commitments of the Community have grazed the ceiling of what is available in the budget. The budget, I should say, is fed from three sources: from the external common tariff, from direct contributions from Member-states, and from a share (currently 1%) of the VAT tax in the Community.

It is interesting to note in this regard that, while of course it does not include defence expenditure, the budget of the EEC represents about 0.7% of the gross product of the Community Member-states while here in the United States the federal budget comes to some 20-25% of the gross product; in the Federal Republic of Germany this figure is about 5-7%. We must all live with budget constraints. But budget constraints should not be used as an excuse for failing to develop new policies which, if properly devised, will of themselves ease the overall budgetary situation and create additional growth and development.

The problems are daunting in other areas also. We have, for example, an even stronger dependence than you on imported oil -- 86% of our requirements being imported.

Yet, at the Community level, we have had only a limited range of policies and financial instruments to deal with this problem. We do not have, for example, a programme of the ambition and scope of your Project Independence, however difficult your experience of this project has been.

We have, likewise, in almost all regions of the Community, large industrial sectors in decline -- shipbuilding, steel, textiles, to name but a few. We, therefore, urgently need a Community-wide approach to reconversion, to innovation, to new investment. We require an industrial policy that will enable us to compete in manufactured goods -- our share of the U.S. market in this area, for example, having dropped from 28% in 1970 to 20% in 1979.

We are, therefore, currently putting forward proposals for new policy initiatives in all these fields. Within this overall strategy of renewal and adjustment, our priority is to reduce unemployment. The total number of unemployed in the Community has gone from 2 million in 1970 to 9 million at present. Our unemployment rate is, significantly, now over 8%. We are proposing, therefore, that a much greater volume of resources go to job-training, to job creation and to a series of programmes designed to promote and stimulate small and medium sized enterprises.

Since we as a group of nations have become poorer in recent years, as a consequence of our high energy dependence, we have to accept new discipline and order in our public finances. However, we cannot do this at the expense of those now unemployed, or the growing number of young people coming on the labour market. Their hope is our hope. The young are the guarantors of the future and, if a choice has to be made between growing expenditure on public services and utilities, on the one hand, and training and job creation on the other, there can be no hesitation in making that choice. The dignity of work is not only personally fulfilling but is the very cornerstone in the construction of a stable and just order in society.

Agriculture is, as you will be aware, the major element in the Community budget -- around 60% -- and is, in terms of our economic relations with the United States, arguably the most sensitive issue. We should, however, set on record the basic facts of the situation. In 1978 -- a fairly typical year -- the Community's farm exports totalled 1.9 billion dollars against the U.S. agricultural exports to the Community of 7.1 billion dollars. In fact, because of the imbalance in agricultural trade, the U.S. enjoyed a large surplus in its trade with the Community -- some \$25 billion last year.

Our general strategy in the agricultural area in the future will be designed to bring our prices more in line with world prices, to promote an active export policy (especially through long-term supply contracts), and to move the volume of production more in line with internal and external need. The European Community remains fully committed to discharging its obligations in the face of the great need for food which exists in the world today. This is an obligation that none of us can shirk and, even within the past two weeks, we have demonstrated our determination by launching a new strategy, and providing additional budgetary measures, to respond to the crisis of world hunger.

I spoke a moment ago of the Community's deficit of \$25 billion in its trade balance with the United States in 1980. It is perhaps inevitable that, given the size of this deficit, there are demands from time to time for protectionism. We have resisted such demands, and will continue to do so. Trade restrictions, in my view, would be in the interest neither of the United States, nor of Europe. As we must together resist these forces, so we must ensure that we coordinate our economic strategies to guard against unduly severe consequences in one area of what might be judged as appropriate policy in the other.

High interest rates in the United States, for instance, are not, to put it mildly, helpful to the

economic situation in Europe at the moment.

The relationship between our two continents is an old and valued one. It is as much cultural and intellectual as it is commercial and monetary. It is, at heart, a political relationship, a shared view about the basics that underpin the world order -- peace, justice, human rights, free trade and free movement of people. We, of course, differ from time to time in our assessment of, and our response to, particular issues. The cruel tragedy of President Sadat's assassination last week reminds us very forcefully of our lack of a consolidated position on the strategy to be pursued to bring a definitive peace settlement to the Middle East. This is an area too sensitive, and too central to world peace and security, not to be looked at urgently again by both sides.

In his famous declaration of the 19th of May, 1950, Robert Schumann spelt out the *raison d'être* of the European Community. Strikingly, he made the point there that "the contribution that an organized and active Europe can make to civilization is indispensable for the maintenance of peaceful relations." This spirit of a strong, forward-looking, confident Europe has been subdued for all too long. This is not just Europe's loss, it is that also of our friends and partners throughout the world.

We need to talk more often and more frankly to one another and not at -- as too often happens -- one another. We need to discuss, together, the consequences that major political, social, economic and intellectual developments can have, and are indeed having, for our relationship. In short, ladies and gentlemen, we need a new common purpose on both sides of the Atlantic.