

ECONOMIC RECESSION
IN THE
COUNTRIES OF THE EUROPEAN COMMUNITY
AND
THE WORLD ECONOMY

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BY

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I. INTRODUCTION

1. YOU HAVE ASKED ME TO SPEAK ABOUT THE ECONOMIC SITUATION IN WESTERN EUROPE AND HOW IT AFFECTS THE WORLD ECONOMY. AS I PREPARED MY REMARKS EARLIER THIS MONTH, I CAME TO REALIZE THAT WHAT YOU HAD ASKED ME TO DO WAS NOT ALL THAT EASY.

AS AN AMERICAN CITIZEN WORKING FOR THE EUROPEAN ECONOMIC COMMUNITY, HOWEVER, I THOUGHT I MIGHT BE ABLE TO OFFER SOME OBJECTIVE VIEWS ON WHAT THE EUROPEAN COMMUNITY (E.C.) HAS DEVELOPED TO BE, WHAT THE ECONOMIC SITUATION IS IN EUROPE TODAY, WHAT ROLE THE E.C. PLAYS IN THE WORLD ECONOMY, AND WHAT THE STATUS OF U.S.-E.C. TRADE RELATIONS IS TODAY.

2. LET ME BEGIN BY SAYING THAT THERE ARE MANY PRECEDENTS FOR AN AMERICAN CITIZEN WORKING WITH EUROPEAN INSTITUTIONS AND NATIONS. A MOST ILLUSTRIOUS EXAMPLE IS THAT OF FORMER UNDERSECRETARY OF STATE GEORGE BALL WHO, IN HIS RECENTLY PUBLISHED MEMOIRS, "THE PAST HAS ANOTHER PATTERN," WRITES ABOUT HIS EXPERIENCES AS A PRIVATE CITIZEN WORKING WITH JEAN MONNET. JEAN MONNET WAS THE FRENCH

PUBLIC OFFICIAL WHO IN THE LATE 1940s AND EARLY 1950s ORIGINATED THE CONCEPT OF A EUROPEAN "COMMUNITY" OF NATIONS, UNITED FIRST ECONOMICALLY, AND PERHAPS SOME DAY POLITICALLY.

HE RECOUNTS HIS LONG WORKING SESSIONS A GENERATION AGO IN COLLABORATION WITH EUROPEAN AND OTHER U.S. OFFICIALS, IN WHICH "WE ALL BELIEVED FERVENTLY IN MONNET'S GOAL OF A UNITED EUROPE, WHICH, WE THOUGHT, WAS QUITE AS IMPORTANT TO AMERICANS AS TO EUROPEANS."

II. THE EUROPEAN ECONOMIC COMMUNITY

A. THE BIRTH OF THE E.C.

JUST OVER TWENTY-FIVE YEARS AGO, LEADERS FROM SIX EUROPEAN NATIONS - BELGIUM, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, LUXEMBOURG, AND THE NETHERLANDS - MET IN ROME TO SIGN A TREATY PLEDGING THEIR NATIONS TO ESTABLISH THE FOUNDATIONS OF A UNITED EUROPE.

THE FIRST AND ESSENTIAL STEPS IN THE CREATION OF A UNITED EUROPE WOULD BE THE ESTABLISHMENT OF A COMMON MARKET WITHIN THE BORDERS OF THE MEMBER-STATES FOR THE FREE

MOVEMENT OF PEOPLE, GOODS, SERVICES AND CAPITAL. TRADE BARRIERS AMONG THE NATIONS THAT WERE MEMBERS OF THE E.C. WERE GRADUALLY ELIMINATED AND THE FRAMEWORK FOR A REVIEW OF COMMON POLICIES - ON TRANSPORTATION, ENERGY, AND RESEARCH AND DEVELOPMENT - WAS CONSTRUCTED.

B. THE ROLE OF THE UNITED STATES

THE E.C. WAS BORN LITERALLY OUT OF THE ASHES OF THE SECOND WORLD WAR. THE FOUNDING FATHERS OF EUROPE WERE DETERMINED TO ELIMINATE THE HISTORICAL ROOTS OF WORLD CONFLICT, BY INTEGRATING KEY ECONOMIC SECTORS, REDUCING TRADE BARRIERS, AND ENSURING THE SECURITY OF FOOD SUPPLIES.

THE UNITED STATES WAS INTIMATELY INVOLVED IN THE INITIAL PROCESS OF EUROPEAN UNIFICATION. THE MARSHALL PLAN FOR THE RECOVERY OF EUROPE LAID THE FOUNDATIONS FOR THE RECONSTRUCTION OF EUROPE. SUPPORT FOR EUROPEAN UNITY, NURTURED BY ECONOMIC GROWTH, HAS BEEN A KEY ELEMENT OF AMERICAN FOREIGN POLICY IN THE POST-WAR PERIOD. THE ACHIEVEMENT OF A UNITED EUROPE WOULD ENSURE NOT ONLY ECONOMIC PROSPERITY, BUT ALSO SERVE AS A BULWARK AGAINST THE EMERGING POWER OF THE SOVIET BLOC.

C. THE GROWTH OF EUROPE

THE EUROPEAN COMMUNITY HAS GROWN TO A CURRENT MEMBERSHIP OF TEN NATIONS. DENMARK, IRELAND AND THE UNITED KINGDOM JOINED IN 1973, GREECE IN 1981. SPAIN AND PORTUGAL ARE EXPECTED TO BECOME MEMBERS IN THE MID-1980s. THE E.C. TODAY HAS 270 MILLION PEOPLE AND A COMBINED GNP OF CLOSE TO \$3 TRILLION, ALMOST EQUAL TO THAT OF THE UNITED STATES.

THE CONSOLIDATION OF TEN NATIONAL ECONOMIES HAS BOTH CREATED THE WORLD'S LARGEST SINGLE TRADING BLOCK AND BRED A POWERFUL COMPETITOR FOR THE UNITED STATES.

EUROPE AND AMERICA TODAY ARE COMPETING AGAINST EACH OTHER. INTERNATIONAL COMPETITION AND EXPANDED TRADE HAVE HAD A BENEFICIAL IMPACT ON THE WORLD ECONOMY OVER THE PAST QUARTER CENTURY, OFFERING WIDER CONSUMER CHOICE, LOWERING PRICES AND CREATING NEW JOBS. HOWEVER, COMPETITION HAS ALSO BROUGHT HEIGHTENED TENSIONS ACROSS THE ATLANTIC, FIRST IN EACH OTHER'S MARKETS, AND INCREASINGLY IN THIRD MARKETS. THIS COMPETITION HAS BEEN THE PRICE PAID FOR A STRENGTHENED AND ECONOMICALLY POWERFUL EUROPE.

LAST YEAR'S TRANSATLANTIC CONFLICTS ON EUROPEAN STEEL EXPORTS TO THE UNITED STATES AND ON THE IMPOSITION OF SANCTIONS ON THE EXPORTATION OF OIL AND GAS PIPELINE EQUIPMENT TO THE SOVIET UNION BY U.S. SUBSIDIARIES AND LICENSEES STRAINED THE U.S.-WESTERN EUROPEAN RELATIONSHIP ALMOST TO THE BREAKING POINT.

ONLY THROUGH PATIENT DIPLOMACY AND PAINSTAKING EFFORT WERE THE CRISES RESOLVED. I SUSPECT, HOWEVER, THAT WHILE THE ISSUE OF ECONOMIC SANCTIONS VIS-A-VIS THE SOVIET UNION MAY HAVE BEEN SETTLED, PARTICULARLY AS THEY APPLY TO EUROPEAN-BASED FIRMS, DISAGREEMENTS OVER THE CONDUCT OF COMMERCIAL RELATIONS WITH THE EAST WILL RE-OCCUR. CRITICAL DIFFERENCES REMAIN BETWEEN THE BODIES POLITIC ON BOTH SIDES OF THE ATLANTIC REGARDING THE NATURE AND SCOPE OF RELATIONS WITH THE SOVIET BLOC, PARTICULARLY ON THE USE OF ECONOMIC SANCTIONS AS A TOOL OF FOREIGN POLICY.

AT THE PRESENT TIME, A MAJOR DISAGREEMENT OVER THE E.C.'S AGRICULTURAL EXPORT REFUND SYSTEM IS BREWING AND RISKS ESCALATING INTO A FULL-FLEDGED TRADE WAR IF STEPS ARE NOT TAKEN TO DEFUSE THE TENSIONS.

II. THE ECONOMIC RECESSION IN WESTERN EUROPE

THOSE TENSIONS HAVE BEEN AGGRAVATED BY THE LINGERING ECONOMIC RECESSION THROUGHOUT THE WORLD.

A. ECONOMIC INDICATORS

THE EUROPEAN COMMUNITY IS ENTERING ITS FOURTH SUCCESSIVE YEAR OF RECESSION. THE COMMUNITY GNP GROWTH IN 1981 WAS NEGATIVE (-0.6%), WHILE THE ECONOMY SHOWED NO GROWTH IN 1982. THE UNITED STATES ECONOMY GREW BY LESS THAN 1% IN 1981 AND DECLINED BY MORE THAN 1% IN 1982.

UNEMPLOYMENT IN EUROPE, AS IN THE UNITED STATES, HAS SKY-ROCKETED AND THERE IS LITTLE CHANCE OF IMPROVEMENT OVER THE SHORT-TERM. THE UNEMPLOYMENT RATE IN THE E.C. WAS 10.2 % IN 1982 (THE U.S. FIGURE WAS 10.8%). IN ADDITION, WHILE IN THE UNITED STATES THE HIGH UNEMPLOYMENT RATE IS A CYCLICAL ONE AND THE NUMBER OF EMPLOYED PERSONS HAS RISEN OVER THE PAST DECADE, IN THE E.C., TOTAL EMPLOYMENT IS ACTUALLY LOWER THAN A DECADE AGO. THE STRUCTURAL NATURE OF ITS UNEMPLOYMENT WILL CONTINUE TO BE A SERIOUS PROBLEM FOR EUROPE, WHICH DOES NOT HAVE THE SAME EXPECTATION OF IMPROVEMENT IN THE UNEMPLOYMENT SITUATION THAT THE UNITED STATES DOES.

THE INDUSTRIAL CAPACITY UTILIZATION RATE IN THE UNITED STATES WAS AROUND 70% AND NOT MUCH BETTER IN THE E.C. COUNTRIES.

B. CONSUMER ATTITUDES

THE CONTINUING DOWNTURN IN ECONOMIC ACTIVITY IN THE COMMUNITY OVER THE PAST SEVERAL YEARS HAS RESULTED IN A SHARP DETERIORATION IN CONSUMER CONFIDENCE IN THE ECONOMIES OF THE EUROPEAN COMMUNITY. CONSUMERS HAVE BECOME MORE PESSIMISTIC ABOUT THE TREND IN UNEMPLOYMENT, WHILE EXPECTATIONS OF HIGHER INFLATION OVER THE NEXT TWELVE MONTHS HAVE RISEN, IN SPITE OF A DROP IN THE E.C. INFLATION RATE IN 1982 TO LESS THAN 9% ON AVERAGE AMONG THE MEMBER-STATES.

THESE ATTITUDES, IN TURN, HAVE CAUSED CONSUMER SPENDING AND CAPITAL INVESTMENT TO STAGNATE.

C. FORECASTS FOR 1983

THE EUROPEAN COMMUNITY'S COMMISSION - ITS "EXECUTIVE" AND ADMINISTRATIVE BRANCH - HAS FORECAST THAT OUTPUT GROWTH IN 1983 IS LIKELY TO REMAIN VERY WEAK.

OUTPUT IS EXPECTED TO GROW BY LESS THAN 1% IN THE COMMUNITY. DOMESTIC DEMAND MAY RISE IF INTEREST RATES AND INFLATION CONTINUE TO LOWER. ON THE OTHER HAND, EXTERNAL DEMAND WILL MOST LIKELY NOT MAKE AN IMPORTANT CONTRIBUTION TO E.C. GROWTH, GIVEN INCREASING FINANCIAL CONSTRAINTS IN OPEC COUNTRIES AND IN THE LESS DEVELOPED COUNTRIES (LDCs).

HOWEVER, IF THE MORE OPTIMISTIC PROSPECTS FOR THE U.S. ECONOMY PROVE TO BE CORRECT AND THE U.S. ECONOMY GROWS BY SOME 4-5%, AS SOME U.S. OFFICIALS AND ECONOMISTS EXPECT, THE EFFECT ON WESTERN EUROPE WOULD BE CLEARLY POSITIVE. IF THIS GROWTH IS ACCOMPANIED BY A FURTHER DROP IN REAL INTEREST RATES, THE EUROPEAN ECONOMIES WOULD BENEFIT AND IN TURN BEGIN THE SLOW ROAD TO RECOVERY.

III. EUROPE AND THE WORLD ECONOMY

IN TIMES OF ECONOMIC RECESSION AND UNCERTAINTY, THERE IS A PROCLIVITY FOR NATIONS TO TURN INWARD. IN ECONOMIC TERMS, THIS OFTEN RESULTS IN PROTECTIONISM.

A. THE IMPORTANCE OF TRADE

AT THE SAME TIME, THE IMPORTANCE OF INTERNATIONAL TRADE AS A CATALYST FOR ECONOMIC RECOVERY CANNOT BE OVERSTATED. THUS, ONE HAS WHAT I CALL A "PARADOX" OF THE INTERNATIONAL ECONOMY. ALTHOUGH ECONOMIC RECESSION INEVITABLY PROVIDES STRONG PRESSURES TO RESTRICT TRADE, ONLY IF TRADE IS INCREASED WILL ECONOMIC RECOVERY AND GROWTH BE ENSURED.

THE PROGRESSIVE LIBERALIZATION OF TRADE AND RESISTANCE TO PROTECTIONISM HAVE BEEN FUNDAMENTAL OBJECTIVES OF THE WESTERN WORLD SINCE THE END OF THE SECOND WORLD WAR. THE CREATION OF SUCH INTERNATIONAL INSTITUTIONS AS THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT), THE INTERNATIONAL MONETARY FUND (IMF) AND THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) REFLECTED THE CONCERN OF THE INDUSTRIALIZED WORLD'S LEADERSHIP THAT THERE NOT BE A RETURN TO THE BEGGAR-THY-NEIGHBOR POLICIES OF THE 1930s, WHICH INCLUDED COMPETITIVE CURRENCY DEVALUATIONS AND THE IMPOSITION OF EXCESSIVE BARRIERS TO TRADE.

B. THE E.C. AND TRADE

THE COMMITMENT TO LIBERALIZED TRADE HAS BEEN A KEY ELEMENT IN THE DEVELOPMENT OF THE COMMUNITY. THE E.C. IS OFTEN PERCEIVED ON THIS SIDE OF THE ATLANTIC AS A PROTECTIONIST BLOC WHICH SEEKS TO INSULATE ITSELF FROM THE VAGARIES OF INTERNATIONAL ECONOMIC DEVELOPMENTS.

YET, THE COMMUNITY, EXCLUDING INTRA-COMMUNITY TRADE, ACCOUNTS FOR 19% OF WORLD EXPORTS (1980) AND OVER 24% OF WORLD IMPORTS (1980). THE U.S. FIGURES ARE 13.5% AND 15.2% RESPECTIVELY.

HIGHLY DEPENDENT ON IMPORTED ENERGY, WHICH IS DENOMINATED IN DOLLARS, THE COMMUNITY'S TERMS OF TRADE DETERIORATED SHARPLY DURING THE 1970s DUE TO THE OIL PRICE INCREASES. THIS CAUSED SHARP DETERIORATION OF THE BALANCE OF GOODS AND SERVICES ON SEVERAL OCCASIONS DURING THAT PERIOD.

GIVEN THE COMMUNITY'S POSITION IN THE WORLD AS A LEADING TRADING BLOC, IT SHOULD COME AS NO SURPRISE THAT THE DECLINE IN GNP GROWTH THE E.C. HAS EXPERIENCED OVER THE PAST FEW YEARS HAS HAD AN IMPACT ON ITS RELATIONSHIP WITH ITS TRADING PARTNERS, BOTH IN THE INDUSTRIALIZED AND THIRD WORLDS. IN ADDITION, THE DROP IN VALUE OF MANY EUROPEAN

CURRENCIES HAS AFFECTED THE LEVEL OF IMPORTS INTO THE COMMUNITY.

WORLD OVERALL TRADE IN 1981 IN VOLUME TERMS STAGNATED, AND WILL PROBABLY HAVE DECLINED IN 1982.

IN 1981, THE E.C. TRADE DEFICIT WAS NEARLY HALVED, AS A 12% FALL IN THE VOLUME OF IMPORTS EXCEEDED THE 8½% DECLINE IN EXPORTS. IN VALUE TERMS, THE MARKED DECLINE OF DOMESTIC DEMAND TOGETHER WITH THE STRONG DEPRECIATION OF EUROPEAN CURRENCIES RESULTED IN ABOUT A 5% DROP IN IMPORTS WHENEVER EXPORTS ROSE BY 2½%.

C. THE DEVELOPING WORLD

THE NATIONS MOST IMPACTED BY THE DECLINE IN INTERNATIONAL TRADE ARE THE DEVELOPING COUNTRIES, PARTICULARLY THE NON-OIL EXPORTING COUNTRIES WHICH ARE HEAVILY DEPENDENT ON THE EXPORT EARNINGS OF A LIMITED NUMBER OF COMMODITIES AND FINISHED GOODS. THE NON-OIL DEVELOPING COUNTRIES HAVE BEEN FACING ENORMOUS PROBLEMS. THE DROP IN THE PRICES OF COMMODITY EXPORTS, TO THEIR LOWEST LEVEL SINCE THE SECOND WORLD WAR, ALONG WITH THE

CONTINUED NEED FOR CAPITAL GOODS IMPORTS, HAS ACCENTUATED THE BURDEN OF THEIR EXTERNAL DEBT.

THE CURRENT ACCOUNT DEFICIT OF THE NON-OIL DEVELOPING COUNTRIES INCREASED FURTHER, FROM \$53 BILLION IN 1980 TO \$73.6 BILLION IN 1981, WHILE THE INDUSTRIAL COUNTRIES HALVED THEIR CURRENT ACCOUNT DEFICIT FROM \$51.2 BILLION IN 1980 TO \$23 BILLION IN 1981.

THE GROWING DEFICIT HAS BEEN FINANCED BY INCREASED BORROWINGS ON INTERNATIONAL CAPITAL MARKETS. THIS SITUATION CAN ONLY BE REVERSED IF THE DEVELOPING COUNTRIES' TERMS OF TRADE IMPROVE, I.E. HIGHER PRICES FOR THEIR EXPORTS, AND THROUGH AN EXPANSION OF EXPORTS TO MARKETS IN EUROPE AND AMERICA. THIS, IN TURN, CAN ONLY HAPPEN IF THERE IS A REVIVAL OF ECONOMIC GROWTH IN WESTERN EUROPE.

ACCESS TO THE E.C. MARKET IS ENSURED FOR IMPORTS FROM THIRD WORLD NATIONS. OVER SIXTY AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES HAVE CONCLUDED WHAT IS CALLED THE "LOME CONVENTION" WITH THE E.C. THE LOME CONVENTION IS AN AGREEMENT WHICH REMOVES CUSTOMS DUTIES WITHOUT RECIPROCAL

OBLIGATIONS FOR 99.5% OF THESE DEVELOPING COUNTRIES' EXPORTS TO THE E.C. THE E.C. HAS ALSO CONCLUDED AGREEMENTS WITH NATIONS IN THE MIDDLE EAST, ASIA, AND LATIN AMERICA, GIVING PREFERENTIAL ACCESS TO CERTAIN COMMODITY AND MANUFACTURED PRODUCT EXPORTS WHICH ARE VITAL FOR THESE COUNTRIES.

IV. THE INTERNATIONAL MONETARY SITUATION

HOWEVER, EXPANSION OF THE ECONOMIES OF THE DEVELOPING COUNTRIES CANNOT OCCUR SOLELY THROUGH TRADE LIBERALIZATION AND OPENING UP OF MARKETS.

THE GROWING DEBT BURDEN OF THE DEVELOPING NATIONS IS LIMITING THEIR ABILITY TO EXPAND THEIR ECONOMIES. EXPORT EARNINGS ARE FALLEN BECAUSE OF THE WORLD RECESSION AND THE FALL IN COMMODITY PRICES. NEEDED INVESTMENT FUNDS ARE BEING DRAINED AWAY AND USED TO FINANCE IMPORTS AND REPAY DEBTS.

AS YOU KNOW, THE INTERNATIONAL DEBT SITUATION HAS BECOME CRITICAL. THE TOTAL DEBT OF THE DEVELOPING

COUNTRIES AT THE END OF 1982 WAS OVER \$600 BILLION, AN INCREASE OF SOME 18% OVER 1981, ACCORDING TO THE OECD. THIS DEVELOPMENT HAS CREATED GREAT STRESS ON THE WORLD ECONOMY, PARTICULARLY IN THE THIRD WORLD .

THE TWO OIL SHOCKS OF THE 1970s, THE HIGH LEVEL OF INTEREST RATES AND LOWER EXPORT EARNINGS HAVE ACCENTUATED THE PROBLEM OF DEBT REPAYMENT. WHILE A COLLAPSE OF THE INTERNATIONAL MONETARY AND BANKING SYSTEM IS NOT LIKELY, IT HAS BEEN SEVERELY SHAKEN. BANK EXPOSURE HAS NOT ONLY BEEN LARGE IN DOLLAR TERMS, IT HAS ALSO CONCENTRATED IN A FEW LARGE DEVELOPING COUNTRIES. ARGENTINA, BRAZIL, KOREA AND MEXICO ACCOUNT FOR MORE THAN ONE-HALF OF THE TOTAL OUTSTANDING LOANS OF PRIVATE BANKS TO NON-OPEC DEVELOPING COUNTRIES. A READJUSTMENT IN THE LEVEL OF LENDING TO THESE COUNTRIES IS UNDER WAY. THE INTERNATIONAL MONETARY FUND (IMF) IS TAKING STEPS TO ASSIST DEVELOPING NATIONS IN THE REPAYMENT OF THEIR DEBTS. IT IS SEEKING A SUBSTANTIAL INCREASE IN ITS REGULAR AND SPECIAL LENDING RESOURCES.

DEMAND FOR IMF FINANCING HAS GROWN IN RECENT YEARS, AND UNLESS THE FUND'S RESOURCES ARE INCREASED, ITS LIQUIDITY POSITION COULD SOON COME UNDER SEVERE STRAIN.

ADDITIONAL LENDING TO DEBTOR NATIONS BY BOTH THE IMF AND THE PRIVATE SECTOR WILL CONTINUE. HOWEVER, THE LENDING ACTIONS MUST BE ACCOMPANIED BY APPROPRIATE ADJUSTMENT POLICIES ON THE PART OF DEVELOPING COUNTRIES. CAPITAL FLOWS INTO DEBTOR NATIONS WILL HAVE TO BE USED IN MORE PRODUCTIVE WAYS SO THAT EXPORT EARNINGS CAN BE GENERATED MORE EFFICIENTLY.

ONLY BY BORROWING MORE, RATHER THAN LESS, DO MANY DEVELOPING NATIONS HAVE ANY CHANCE OF SUSTAINING A DEGREE OF GROWTH THAT WILL ALLOW THEM TO REDUCE THE LEVEL OF THEIR DEBT. THIS IS ANOTHER "PARADOX" OF THE INTERNATIONAL ECONOMIC SCENE.

FURTHERMORE, IN THIS INTERDEPENDENT WORLD, AS SECRETARY OF THE TREASURY DONALD REGAN HAS SAID, "THE SOUNDNESS AND PROSPERITY OF EACH OF THE NATIONAL ECONOMIES IS INEXTRICABLY LINKED."

GROWTH CANNOT OCCUR WITHOUT MONETARY AND FINANCIAL STABILITY, INCREASED TRADE, AND REALISTIC DOMESTIC ECONOMIC POLICIES THAT TEMPER EXCESSIVE DEFICIT FINANCING AND GIVE GREATER EMPHASIS TO PRIVATE INVESTMENT

AND FREE MARKET FORCES, AS WELL AS ARE LESS RESTRICTIVE AND DEFLATIONARY.

THE ECONOMIC SITUATION IN THE THIRD WORLD CANNOT BE CORRECTED UNLESS THERE IS ECONOMIC GROWTH IN EUROPE AND THE UNITED STATES. AT THE SAME TIME, EUROPE AND THE UNITED STATES CANNOT EXPAND THEIR ECONOMIES UNLESS REAL INTEREST RATES DROP AND BUDGET DEFICITS ARE BROUGHT UNDER CONTROL.

TRADE PROTECTIONISM MUST ALSO BE RESISTED. THE "ECONOMIC REPORT OF THE PRESIDENT" STATES THAT TO RECOVER FROM THE DEBT PROBLEM, DEBTOR COUNTRIES WILL HAVE TO INCREASE THEIR EXPORTS TO THE INDUSTRIAL NATIONS. THE INDUSTRIAL NATIONS - THE UNITED STATES AND WESTERN EUROPE -, THEREFORE, MUST RESIST PRESSURES TO INSTITUTE NEW PROTECTIONIST MEASURES, AS THE DEVELOPING NATIONS SEEK TO EXPAND EXPORTS.

V. U.S.-E.C. TRADE RELATIONS

I WOULD LIKE TO RETURN BRIEFLY TO THE SUBJECT OF TRADE RELATIONS BETWEEN THE UNITED STATES AND THE COMMUNITY, BECAUSE I BELIEVE IT REMAINS THE MOST INTRACTABLE ISSUE IN THE TRANSATLANTIC RELATIONSHIP.

TOGETHER THE U.S. AND THE E.C. ACCOUNT FOR OVER ONE THIRD OF WORLD TRADE. THE U.S. AND THE E.C. ARE EACH OTHER'S BEST CUSTOMERS. THE U.S. MAINTAINED A TRADE BALANCE OF OVER \$10 BILLION IN 1982, A MAJOR PART OF IT IN AGRICULTURAL PRODUCTS.

YET, BECAUSE OF THE WORLD ECONOMIC SITUATION, WITH ITS CONCOMITANT UNEMPLOYMENT AND DECLINE IN INCOMES, THE RHETORIC ACROSS THE ATLANTIC HAS HEIGHTENED. AS I MENTIONED, STEEL AND EAST-WEST TRADE WERE THE MAJOR SORE POINTS OF 1982. AGRICULTURE WILL BE THE SORE POINT FOR 1983, AND MAYBE BEYOND.

THE UNITED STATES AND THE E.C. ARE HEADED FOR A MAJOR CONFRONTATION ON AGRICULTURAL TRADE, PARTICULARLY ON THE QUESTION OF SUBSIDIES FOR EXPORTS AND MARKET SHARES IN THIRD MARKETS. THE E.C. DOES NOT DENY THAT ITS SUBSIDIZES SOME OF ITS AGRICULTURAL PRODUCTS. HOWEVER, THIS PRACTICE WAS PART OF THE BALANCE OF CONCESSIONS AGREED TO IN THE TOKYO ROUND OF GATT NEGOTIATIONS CONCLUDED IN 1979.

ALL COUNTRIES, ALBEIT IN DIFFERENT WAYS, PROVIDE SUPPORT FOR THEIR AGRICULTURE. THERE ARE POLITICAL, SOCIAL AND ECONOMIC REASONS FOR SUCH POLICIES.

WHAT IS IMPORTANT NOW IS TO ACT CALMLY AND AVOID EXCESSIVE MUTUAL RECRIMINATIONS. THE E.C. HAS TAKEN A SERIES OF MEASURES TO ENSURE A BETTER EQUILIBRIUM BETWEEN SUPPLY AND DEMAND, AND TO LESSEN THE INCENTIVE FOR OVER-PRODUCTION. THESE MEASURES WILL TAKE TIME TO BE IMPLEMENTED AND TAKE HOLD, HOWEVER.

VI. CONCLUSION

I HOPE THAT I HAVE SUCCEEDED IN GIVING YOU A BETTER IDEA OF WHAT THE EUROPEAN COMMUNITY IS, THE IMPORTANCE OF TRADE FOR THE RETURN TO PROSPERITY AND THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM, AND WHAT ECONOMIC PROBLEMS FACE THE UNITED STATES AND WESTERN EUROPE BOTH IN THE COMING YEARS.

NO RELATIONSHIP IS AS VITAL FOR WORLD PEACE AS THE AMERICAN-EUROPEAN RELATIONSHIP. NO ISSUES ARE AS IMPORTANT TO INTERNATIONAL STABILITY AS THE ISSUES OF TRADE AND NUCLEAR WAR, WHICH SO OFTEN PREOCCUPY, AND SOMETIMES DIVIDE, THE UNITED STATES AND ITS EUROPEAN ALLIES.

LIKE YOU, I AM PART OF WHAT HAS COME TO BE CALLED THE "SUCCESSOR GENERATION," WHICH HAS NOT EXPERIENCED THE

ATROCITY OF WORLD WAR AND THE PAROCHIALISM OF AN EARLIER ERA. THE GENERATIONS THAT PRECEDED US CREATED THE CONDITIONS OF INTERNATIONAL CONFLICT, BUT ALSO, HAPPILY, ESTABLISHED THE FOUNDATIONS OF BETTER RELATIONS AMONG THE NATIONS OF THE WORLD.

OUR POST-WAR GENERATION MUST AVOID THE ERRORS OF THE PAST. PRESIDENT JOHN F. KENNEDY, OVER TWENTY YEARS AGO, SPOKE OF A TORCH BEING PASSED TO A NEW GENERATION OF AMERICANS.

TODAY, THE GENERATION WHICH WE REPRESENT MUST CARRY THAT TORCH AND FACE - ON BOTH SIDES OF THE ATLANTIC - RENEWED CHALLENGES. THE CHOICES WILL BE DIFFICULT AND NOT ALWAYS CLEAR CUT.

BUT, IF WE BELIEVE THAT COOPERATION IS BETTER THAN CONFLICT AND PEACE BETTER THAN WAR, I AM CONFIDENT WE CAN SURMOUNT THESE CHALLENGES AND MAKE THE RIGHT CHOICES.