

A D D R E S S

TO THE INTERNATIONAL STUDY AND RESEARCH INSTITUTE
IN NEW YORK

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THE EUROPEAN COMMUNITY
AND
THE UNITED STATES
A Precarious Future

IT IS A PLEASURE-NO LESS CHALLENGING FOR THAT -
TO ATTEND ONCE AGAIN A MEETING OF THE INTERNATIONAL
STUDY AND RESEARCH INSTITUTE, SO DILIGENTLY DIRECTED
BY DR HUTH. THIS HAS BECOME A REGULAR OCCURRENCE FOR ME
DURING THE FIVE YEARS I HAVE BEEN IN NEW YORK, A SOJOURN
SOON TO COME TO AN END, ALAS. ON MOST PREVIOUS VISITS I
HAVE SAT MUTE WHILE MY AMBASSADOR FROM WASHINGTON HAS
DELIVERED THE NEWS FROM THE FRONT. LAST YEAR, HOWEVER,
I DELIVERED THE AMBASSADOR'S ADDRESS MYSELF SINCE HE WAS
UNABLE TO LAND IN NEW YORK BECAUSE LA GUARDIA WAS FOGBOUND.
THIS WAS ON MARCH 11. IT SEEMS ONLY YESTERDAY. AS THE
MONKEY SAID WHEN HE THREW THE CLOCK AT THE CAT :
' 'HOW TIME FLIES.' ' YET DURING THIS PAST 10 MONTHS A
GREAT DEAL HAS HAPPENED, SOME FOR THE GOOD, SOME FOR THE
WORSE. IN BILATERAL RELATIONS BETWEEN THE UNITED STATES
AND THE EUROPEAN COMMUNITY MANY, THOUGH NOT ALL OF THE
PROBLEMS WHICH HAD BECOME IRRITATING AND EVEN DAMAGING
HAVE BEEN DEALT WITH. ON THE OTHER HAND, THE WORLD
RECESSION PERSISTS, INHIBITING THE GROWTH WE DESPERATELY
NEED IF WE ARE TO HALT THE RISE IN UNEMPLOYMENT.

THE GLOBAL ECONOMIC..

THE GLOBAL ECONOMIC AND MONETARY BACKGROUND MAY GET WORSE AND EXACERBATE OUR BILATERAL RELATIONS BY INCREASING PRESSURES ON BOTH SIDES OF THE ATLANTIC FOR PROTECTIONISM. IF I SKETCH IN A LITTLE SCENERY FIRST IT MAY BE EASIER TO UNDERSTAND THE PRECARIOUS, EVEN PERILOUS SITUATION IN WHICH WE FIND OURSELVES.

FIRST, THE WESTERN INDUSTRIALISED WORLD IS STAGNATING. THE PRICE WE ARE PAYING FOR BRING DOWN INFLATION RATES AROUND THE WORLD IS LACK OF GROWTH, LACK OF PRODUCTIVE INVESTMENT AND RISING UNEMPLOYMENT. LACK OF GROWTH MEANS A LACK OF NEW JOBS. THIS IS ESPECIALLY DANGEROUS WHEN YOU FACE AN INCREASE IN THE LABOUR MARKET BROUGHT ON BY AN UNUSUALLY HIGH NUMBER OF SCHOOL-LEAVERS AND COLLEGE GRADUATES LOOKING FOR WORK. THIS PROBLEM IS STARKLY ILLUSTRATED IN THE EUROPEAN COMMUNITY. CURRENTLY WE HAVE BETWEEN 10 AND 11 MILLION PEOPLE UNEMPLOYED. THE YOUNG ARE ALREADY SUFFERING WORST.

A STAGGERING 45 %

A STAGGERING 45% OF THOSE UNDER THE AGE OF 25 ARE UNEMPLOYED. BY 1985 WE EXPECT THE TOTAL UNEMPLOYED TO HAVE CLIMBED TO 15 MILLION. THE PERSISTENT LOW RATES OF GROWTH, ESTIMATED FOR 1983 AT 1.1% FOR THE COMMUNITY, 2% FOR THE USA, SIMPLY DO NOT PROVIDE ENOUGH JOBS. THERE IS A STRONG ARGUMENT FOR A CONCERTED MOVE BY THE INDUSTRIALISED WORLD TO TAKE ACTION TO RAISE GROSS NATIONAL PRODUCT. THIS WAS AGREED AT THE SUMMIT MEETING IN BONN IN 1978. THE RISE IN OIL PRICES SCUPPERED THAT. NOW OIL PRICES ARE FAILING AND SEEM LIKELY TO CONTINUE FALLING. MODEST CONCERTED STIMULATION COULD WORK WONDERS.

SECONDLY THERE IS A CONTINUING GROSS INSTABILITY AMONG WORLD EXCHANGE RATES. IT IS A CURIOUS CUSTOM OF OUR DAILY MONETARY COMMENTATORS, ON TELEVISION, RADIO AND IN NEWSPAPERS, TO USE TERMS WHICH ARE CORRECT IN ABSOLUTE TERMS BUT QUITE MISLEADING IN REALITY. FOR EXAMPLE :
'THE POUND SUNK YESTERDAY TO A NEW LOW AGAINST ALL MAJOR CURRENCIES; ONLY THE DOLLAR HELD ITS OWN.' OR ''THE DOLLAR RECOVERED TODAY AGAINST THE YEN IN A DAY WHICH SAW THE YEN TAKE A HAMMERING ON ALL FRONTS.'' THIS SOUNDS AS IF THE POOR OLD POUND HAD FAILED TO UPHOLD THE FLAG, THAT THE DOLLAR FOUGHT AND WON YET AGAIN AND THAT THE ROTTEN OLD YEN HAD GOTTEN WHAT IT DESERVED. THIS NATIONALISTIC APPROACH TO CURRENCY VALUES IS, THESE DAYS, CONTRARY TO WHAT IS ACTUALLY DESIRABLE.

BASED ON THE REAL WORTH OF THE ECONOMIES CONCERNED, DISTINGUISHED AUTHORITIES RECENTLY RATED BOTH THE POUND AND THE DOLLAR AT 30% ABOVE THEIR RATIONAL VALUE AND THE YEN 12% BELOW. THIS IS A RECIPE FOR MAYHAM, NOT FOR GENUINE COMPETITION BASED ON FREE TRADE. IT IS TRUE THAT MONETARY AUTHORITIES, INCLUDING THOSE IN THE ADMINISTRATION, ARE RE-EXAMINING THE WORLD MONETARY SYSTEM, AND THE DISPARITIES HAVE NARROWED. THE EUROPEAN COMMUNITY HAS ALREADY DEMONSTRATED THAT A LINKED GRID OF CURRENCIES, CALLED THE EUROPEAN MONETARY SYSTEM, CAN WORK. PERHAPS THE IDEA COULD BE EXTENDED TO INCLUDE THE DOLLAR AND THE YEN, WITH RATHER WIDER BANDS TO ALLOW, SAY, SIX PER CENT FLUCTUATION ON EITHER SIDE OF A CENTRAL RATE. BUT WE ARE FAR FROM ACHIEVING SUCH A SYSTEM.

THE THIRD BACKGROUND PROBLEM IS THE INDEBTEDNESS OF MANY DEVELOPING AND NEWLY INDUSTRIALISING COUNTRIES. DEVELOPING COUNTRIES HAVE BEEN HIT THREE WAYS BY RISING OIL PRICES, LOWER COMMODITY PRICES AND HIGH INTEREST RATES. BUT THESE COUNTRIES NEED EVEN MORE MONEY - LOANED UNDER MORE TRANSPARENT SCUTINY, PERHAPS IN ORDER TO SURVIVE. THEY NEED TO GROW; AND WE ALL NEED THEIR MARKETS. AS THINGS STAND, WE STAND CONFRONTED BY MARKETS INCREASINGLY CLOSED BY PENURY.

NOW, THE WORLD..

NOW, THE WORLD TRADING SYSTEM IS UNDER GREAT STRAIN BECAUSE OF ALL THESE SHORTCOMINGS, COMPLICATED FURTHER BY THE DECLINE IN THE OLDER INDUSTRIALISED COUNTRIES OF TRADITIONAL AND HEAVY INDUSTRIES, THE RISE OF THE NEWLY INDUSTRIALISING COUNTRIES AND AGAIN BY THE TECHNOLOGICAL REVOLUTION. THESE PHENOMENA HAVE PRODUCED HUGE, OFTEN DEVASTATING SHIFTS IN EMPLOYMENT PATTERNS WITH HEAVY CASUALTIES. THE EUROPEAN TEXTILE INDUSTRY, FOR INSTANCE, LOST 800,000 JOBS IN EIGHT YEARS BECAUSE OF MASSIVE SURGES IN FOREIGN TEXTILE IMPORTS.

FOR THE UNITED STATES AND THE EUROPEAN COMMUNITY THE SUCCESS OR OTHERWISE OF HOW WE HANDLE THE INCREASING STRAINS IS LITERALLY VITAL TO OUR PROSPERITY AND, I WOULD SAY, TO OUR FREEDOMS. THE REST OF THE WORLD TRADING SYSTEM HANGS UPON US.

IN THE CENTURY BETWEEN THE WAR BETWEEN THE STATES AND THE NINETEEN-SIXTIES, THE UNITED STATES DEPENDED UPON ITS HOME MARKET TO MOP UP ITS VAST PRODUCTION. EXPORTS REGULARLY ACCOUNTED FOR ONLY ABOUT 3-4% OF AMERICAN GNP. DURING THE SEVENTIES THE UNITED STATES ENTERED THE WORLD EXPORT MARKET MORE AND MORE... SO THAT BY 1980 THE EXPORT FIGURE WAS 9% OF GNP.

MORE STRIKINGLY,

MORE STRIKINGLY, EXPORTS ACCOUNT FOR ABOUT ONE-FIFTH OF THE GOODS PRODUCED IN THE UNITED STATES. ALMOST ONE OF EVERY THREE DOLLARS OF CORPORATE PROFIT DERIVES FROM INTERNATIONAL TRADE AND INVESTMENT ACTIVITIES OF AMERICAN FIRMS. ACCORDING TO THE CONFERENCE BOARD, FOUR OUT OF EVERY FIVE NEW MANUFACTURING JOBS CREATED IN THE USA IS LINKED TO EXPORTS.

AND THIS INCREASING DEPENDENCE ON EXPORTS IS LINKED TO EUROPE. IN 1980 THE UNITED STATES RAN A TRADE SURPLUS WITH THE EUROPEAN COMMUNITY OF \$ 25 BILLION, INCLUDING \$ 7 BILLION IN AGRICULTURAL GOODS.

BETWEEN THE TWO OF US, WE ACCOUNT FOR ONE-THIRD OF ALL WORLD TRADE. IF YOU INCLUDE OUR INTERNAL EUROPEAN COMMUNITY TRADE, BETWEEN OUR 10 MEMBER STATES, WE ACTUALLY ACCOUNT TOGETHER FOR HALF THE WORLD'S TRADE. THE UNITED STATES AND THE COMMUNITY ARE BY FAR THE BIGGEST OPERATORS ON THE WORLD TRADE STAGE. BUT THE PRESSURES OF RECESSION AND DECLINING INDUSTRIES HAVE LED TO MUTUAL PROTECTIONIST TENDENCIES. DURING 1981-82 THESE LED TO A GOOD DEAL OF HARMFUL RHETORIC ACROSS THE ATLANTIC, TOO GREAT A READINESS TO BLAME EACH OTHER, TO FIND SCAPEGOATS, TO SEEK SHORT-TERM, NARROWLY-BASED AND EVEN IRRELEVANT SOLUTIONS.

WELL, WE HAVE ..

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WELL, WE HAVE REACHED A DEAL ON STEEL, BUT WE WERE ALWAYS TALKING ABOUT ONLY FIVE PER CENT OF YOUR MARKET AND THE AGREEMENT TO CUT EXPORTS OF EUROPEAN STEEL TO THE USA BY A MILLION OR SO TONNES A YEAR WILL DO LITTLE OR NOTHING TO EASE THE PLIGHT OF THE AMERICAN STEEL INDUSTRY.

WE HAVE COME TO AN AGREEMENT ON PURSUING A MORE COOPERATIVE POLICY ON EAST-WEST TRADE FOLLOWING THE LIFTING OF SANCTIONS AGAINST THE SOVIET GAS PIPELINE.

AND WE HAVE SURVIVED LAST NOVEMBER'S MINISTERIAL MEETING OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE - THE GATT - IN RATHER GOOD SHAPE. WE HAVE A REALISTIC, AS OPPOSED TO AN UNREALISTIC AND HYPOCRITICAL COMMITMENT TO MAINTAIN FREE TRADE, WHICH PROVIDES ALL GOVERNMENTS IN THE AGREEMENT WITH A BENCHMARK FOR THE FUTURE. WE HAVE AN AGREEMENT TO LOOK AT THE QUESTION OF SAFEGUARDS WITH A NEW UNDERSTANDING TO BE REACHED THIS YEAR; THE OBSTRUCTION OF SETTLEMENT OF DISPUTES HAS BEEN MORALLY, IF NOT LEGALLY OUTLAWED; AND THERE SHOULD BE AN ANALYSIS OF SERVICES AND THEIR FUTURE IN THE GATT READY BY NEXT YEAR. THERE IS ALSO TO BE A STUDY OF TRADE IN AGRICULTURE - BUT MORE OF THIS LATER.

MANY NEWS REPORTS...

MANY NEW REPORTS PLAYED UP THE GATT MEETING AS A NEAR-FIASCO. YET IT WAS NEVER INTENDED TO BE A NEGOTIATING SESSION. AND THE OUTCOME LOOKS BETTER WITH EVERY PASSING MONTH. ONE IS REMINDED OF THE MACABRE COMMENT OF THE LATE POST-WAR BRITISH PRIME MINISTER CLEMENT ATLEE, WHEN ASKED WHAT LIFE WAS LIKE AT THE AGE OF 80. 'BETTER THAN THE ALTERNATIVE', HE REPLIED.

THE FACT IS THAT THE GATT IS A COURT OF AGREEMENT, RATHER THAN A COURT OF LAW. WITH 88 CONTRACTING PARTIES IT HAS TO WORK BY NEGOTIATION AND CONCILIATION. IT HAS NO SHERIFF AND NO JAIL. AND IF WE - AND I MEAN THE UNITED STATES AND THE EUROPEAN COMMUNITY IN PARTICULAR - TURN THE GATT INTO A BATTLEGROUND OR GET INTO A SERIES OF KNOCK-ON TRADE DISPUTES OUTSIDE THE GATT, THEN THE UNRAVELLING OF THE FREE WORLD TRADING SYSTEM UPON WHICH THE PROSPERITY OF THE WEST HAS DEPENDED FOR 35 YEARS WOULD BE SWIFT AND TERRIBLE. THE WORLD'S TRADING SYSTEM WOULD SIMPLY GO BUST.

THIS WOULD NOT MERELY BE A COMMERCIAL FACT. IT WOULD BE A POLITICAL EVENT OF THE UTMOST GRAVITY. SINISTER FORCES WOULD ARISE, AS THEY DID DURING THE THIRTIES, WHILE OUR INCREASINGLY JOBLESS PEOPLES LOST FAITH IN THEIR INSTITUTIONS, DEMOCRATIC, FINANCIAL, SOCIAL.

INSIDE THE EUROPEAN.....

INSIDE THE EUROPEAN COMMUNITY THE PROTECTIONIST FORCES HAVE LARGELY BEEN HELD AT BAY, OR AT LEAST CHANNELLED AND CONTROLLED. IN THE UNITED STATES WE SEE THE ELECTION OF A POTENTIALLY MORE PROTECTIONIST CONGRESS AND THE LIKELIHOOD THAT THE DOMESTIC CONTENT BILL WILL NOT ONLY PASS THE HOUSE BUT THE SENATE AS WELL; ALTHOUGH WHETHER OR NOT IT WILL GET A TWO-THIRDS SENATE MAJORITY OR EVENTUALLY INCUR A PRESIDENTIAL VETO REMAINS TO BE SEEN.

THE IMMEDIATE AND APPARENTLY INSOLUBLE PROBLEM BETWEEN US CONCERNS AGRICULTURE. ON THE SURFACE THINGS LOOK BETTER. THE ADMINISTRATION IS NO LONGER ATTACKING THE CONCEPT OF THE COMMON AGRICULTURAL POLICY, WHICH IS THE CEMENT WHICH DIFFERENTIATES THE EUROPEAN COMMUNITY FROM A MERE FREE TRADE ZONE. THE RHETORIC HAS DIED DOWN. SECRETARY OF STATE SHULTZ PLAYED A VALUABLE, HELPFUL ROLE WHEN HE LED FIVE CABINET-LEVEL OFFICIALS TO BRUSSELS IN DECEMBER.

THE FACT IS THAT FAR FROM BEING A PROTECTIONIST FARM SYSTEM, THE COMMUNITY'S AGRICULTURAL POLICY MAKES US THE WORLD'S BIGGEST FOOD IMPORTERS. IN 1980 THE

COMMUNITY IMPORTED...

COMMUNITY IMPORTED \$ 50 BILLION WORTH OF AGRICULTURAL GOODS, OR 25% OF THE WORLD'S TOTAL AGRICULTURAL TRADE. WE EXPORTED \$ 21 BILLION, LEAVING US WITH A DEFICIT ON THE AGRICULTURAL ACCOUNT OF \$ 32 BILLION.

BY COMPARISON THE UNITED STATES IMPORTED \$ 17 BILLION AND EXPORTED \$ 41 BILLION, LEAVING A TRADE SURPLUS IN AGRICULTURAL GOODS OF CLOSE TO \$ 24 BILLION.

NO, THE ARGUMENT IS OVER EXPORT SUBSIDIES. EXPORT SUBSIDIES WERE EXPLICITLY AGREED DURING THE LAST BIG TRADE NEGOTIATIONS UNDER THE GATT - THE TOKYO ROUND. BUT THE ADMINISTRATION HAS SUSTAINED AN ATTACK ON THESE SUBSIDIES FOR TWO YEARS, AND LAUNCHED SIX CASES BEFORE THE GATT, THREATENING TO OVERLOAD THE SYSTEM AND BLOW THE FUSES.

WE ALL SUBSIDISE...

WE ALL SUBSIDISE OUR AGRICULTURE. SOME SYSTEMS USE INCOME SUPPORT OR DEFICIENCY PAYMENTS, AS IN THE UNITED STATES : SOME USE PRICE SUPPORT BY MEANS OF INTERVENTION BUYING. THE COMMUNITY CURRENTLY SUBSIDISES TO THE TUNE OF ABOUT \$ 12 BILLION A YEAR. LATEST USDA ESTIMATES PUT FEDERAL SUPPORT AROUND THE SAME FIGURE FOR 1983.

THE CAP IS ACTUALLY A POLICY FOR STABILISING AGRICULTURAL MARKETS. IF YOU HAVE STABLE INTERNAL PRICES AND FLUCTUATING WORLD PRICES YOU NEED SOME MECHANISM TO OFFSET THE DIFFERENCE. OTHERWISE NO TRADE CAN TAKE PLACE. THE SYSTEM OF VARIABLE IMPORT PRICES AND EXPORT REFUNDS IS SIMPLY THE MEANS BY WHICH THE COMMUNITY ENABLES ITS PRODUCERS TO CONTINUE TRADING ON FLUCTUATING WORLD MARKETS.

THE TOKYO ROUND...

THE TOKYO ROUND AGREEMENT ALLOWS SUBSIDIES PROVIDED THEY DO NOT LEAD TO AN INEQUITABLE SHARE OF A MARKET. THE DEPARTMENT CLAIMS OUR SUBSIDIES ARE INCREASING OUR EXPORTS TO THE DETRIMENT OF AMERICAN FARMERS. IN FACT, IF YOU TAKE WHEAT WHICH IS BY FAR THE MOST IMPORTANT COMMODITY, WHILE OUR EXPORTS DOUBLED BETWEEN 1969-70 AND 1980-81, AMERICAN EXPORTS TREBLED. OUR SHARE OF THE WORLD MARKET ACTUALLY FELL FROM 16.6% TO 14.9%. THE AMERICAN SHARE OF THE WORLD MARKET ROSE FROM 38.4% TO NO LESS THAN 44.8%.

AGRICULTURE IS A TOUGH POLITICAL ISSUE ON BOTH SIDES OF THE ATLANTIC. EUROPEAN FARMERS, WHO HAVE BECOME MANY, MANY FEWER AND MORE PRODUCTIVE, HAVE SLIPPED BEHIND THE RATE OF INFLATION AND THE INCOMES OF THEIR INDUSTRIAL NEIGHBOURS AS THE COMMUNITY'S COUNCIL OF MINISTERS HAS REINED IN THE ANNUAL FARM PRICES INCREASES. FROM THE WINDOWS OF THE COMMISSION'S HEADQUARTERS IN BRUSSELS ONE CAN SEE THE ANGRY FARMERS CONGREGATE, THE RIOT POLICE, THE BATON CHARGES AND THE WATER CANNON. IN THE UNITED STATES WE SEE THE INCREASING AND UTTERLY HEART-RENDING SPECTACLE OF FORECLOSURES, AUCTIONS IN FAVOUR OF THE BANK, EVEN TEARGAS IN COLORADO AGAINST FARMERS UNSUCCESSFULLY TRYING TO PREVENT A FORECLOSURE; AND MORE TO COME.

BUT AS WAS THE CASE..

BUT AS WAS THE CASE WITH STEEL, ATTACKING THE EUROPEAN COMMUNITY WILL NOT SOLVE THE PROBLEM. AMERICAN FARMERS ARE SUFFERING FROM THEIR LOWEST PRICES FOR YEARS AFTER FOUR BUMPER CROPS, HIGH, IF SLOWLY DROPPING INTEREST RATES AND AN IMPEDIMENT TO EXPORTS IN THE FORM OF A DOLLAR OVERVALUED BY AROUND 30%. FURTHERMORE WORLD MARKETS HAVE SHRUNK AFTER THEIR GREAT EXPANSION OF THE SEVENTIES.

IF THE DISCUSSIONS BETWEEN THE COMMUNITY AND THE ADMINISTRATION ON AGRICULTURE, WHICH BEGAN IN WASHINGTON LAST WEEK, DO NOT SATISFY THOSE WHO MAY IN ANY EVENT REFUSE TO BE SATISFIED, WE ARE IN FOR A ROCKY PERIOD AHEAD. LAST WEEK, AT LEAST, THEY WENT WELL. THE NEXT ROUND WILL BE IN BRUSSELS ON 10TH FEBRUARY.

IT IS NOT IN AMERICA'S INTEREST TO UNDERMINE OUR SYSTEM; IT IS NOT IN OUR INTEREST TO FIND OURSELVES FORCED TO RETALIATE. THIS IS THE AREA NOW WHERE THE PROTECTIONIST DANGER IS LAID MOST BARE. PROTECTIONISM WILL SAVE FEW JOBS, THREATEN OTHERS : IT WILL STOP VERY FEW FORECLOSURES, IF ANY, AND LEAD TO MANY MORE. IT WILL NOT HELP THE KIDS WHO ARE BEATING THEIR BRAINS OUT IN COLLEGE. NOR WILL IT HELP PAY OUR SOCIAL SECURITY BILLS. WE SIMPLY CANNOT AFFORD TO GO THAT WAY.
