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EXCERPTS OF SPEECH BY H.E. ROLAND DE  
KERGORLAY, HEAD OF THE DELEGATION OF  
THE COMMISSION OF THE EUROPEAN COMMUNITIES  
AT THE INTERNATIONAL BANKING CENTER OF THE  
FLORIDA INTERNATIONAL UNIVERSITY

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US INTEREST RATES, US-EC TRADE RELATIONS

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Ambassador Roland de Kergorlay stated the following in a speech at the International Banking Center on Friday, June 19, 1981 in Miami, Florida.

US Economic Policy and Europe

"The two major problems we (US and Europe) face are these: First, how to reconcile the new economic policy being pursued in the United States with the effects it is having in Europe - and second, against the background of the Community's \$25 billion trade deficit with the United States, how to manage our trade relations in a way that ensures we avoid a future confrontation. . . ."

"That is why genuine consultation must take place and must be seen to occur, and by consultation I mean each asking the other for his point of view and then taking it into consideration before coming to a final decision. By consultation I do NOT mean notification of a final decision just prior to its implementation.

The objectives of the US policy are to bring down inflation, to increase the growth rate thereby insuring a stable and sustained development of the US economy.

Given the pivotal position of the United States in the world economy, we in Europe cannot but applaud these objectives . . . ."

"Four principal means are being employed to attain these objectives; cuts in public expenditure, limited growth in money supply, tax reductions and deregulation in general . . . ."

US Interest Rates and Europe

"The US government appears to be laying great emphasis on the control of the money supply, the consequence of this is the very high interest rates that we have been experiencing for some time now in the United States.

High interest rates in the United States such as those we have experienced over the last 18 months mean rising interest rates in Europe where they have reached levels which can be tolerated with increasing difficulty over time because they limit the margin of maneuver of the authorities who have to deal with an ever-deepening economic crisis. . . . "

"The effects of this are very detrimental in Europe, where the rate of growth of the economies appears to have been far more affected by high interest rates over the last two years than in the United States. Thus, investment would continue to stagnate, we will continue to experience zero and even negative rates of growth and our unemployment rate will continue rising possibly to reach intolerable levels. . . . "

"What is more, an alarmingly high proportion - 43% of the Community's jobless are young people under the age of 25.

These are not just cold economic facts, they rapidly translate into social and political facts of a somewhat higher temperature.

The consequences of young people entering the job market for the first time and finding they are not welcome in it should be given some consideration.

One should not be surprised that these same young people may be less willing than is normal at such an age to accept traditional values and political beliefs. One should equally not be surprised that societies that cannot provide employment for an increasing percentage of their able population may be less willing to accept added financial burdens to ensure their defense and security. Indeed, the high cost of servicing the debt in a number of member countries has reached such levels that the authorities are facing unpalatable choices between cuts in social benefits which for the above mentioned reasons are difficult to envisage, or a reduction in the defense effort.

Such social and political consequences would not, in any way, serve the interests of the Western Alliance as a whole. A Europe that is economically weakened is a Europe that is politically weakened. It is a Europe that would be less able to play a constructive role in meeting the major challenges of this decade: challenges that the United States would, I am sure, wish that we meet together with them. . . . "

". . . our concern would be alleviated if the policy mix (in the US) were such that interest rates show real signs of abatement in the near term.

This, I understand, implies therefore on the one hand a gradual and, I hope, even a sharp rise in the propensity to save, which at the moment is very low -- a third or less than what it is in Europe or Japan -- as well as a progressive reduction of government calls on the money markets, which implies a real reduction in the budget deficit.

Recent statements seem to indicate that the United States is now inclined to follow a policy of non-intervention in exchange rates. This would constitute a departure from traditional practice.

The effectiveness of intervention by EC central banks is less great in a situation where the US authorities would take a "hands-off" attitude.

To the extent that such interventions are less effective, this would mean that grave strains would be imposed on the European Monetary System; these, over time, could lead to its survival being put into question. . . ."

#### US Trade Surplus with the European Community

"Partly because of agricultural trade . . . the United States has enjoyed a large and growing surplus in its trade with the Community.

From our point of view, our trade deficit with the United States in the past has been something we could reasonably live with.

However, in the past year, our deficit with the United States has more than doubled to \$25 billion; more than twice the deficit that the United States or the EC has with Japan.

It is inevitable that, against the background of a sharply rising deficit of this magnitude, one would see protectionism rearing its ugly head. In spite of all these factors playing against us, we have remained faithful to the free-trade philosophy which constitutes a basic corner stone of the Common Market. . . ."

"It is therefore a little surprising for us to be hearing the language of trade warfare being uttered on more than one occasion recently by high-ranking US officials.

It is all the more surprising as we are not aware of there being any major complaint about any trade measures or practices by the Community other than on the question of export credits.

One might understand a complaint that a \$25 billion surplus was having an inflationary effect on the US economy, due to the increased income generated and the reduced availability of goods on the domestic market.

One does not hear this complaint. Least of all, of course, from the one million US workers whose jobs exist simply because of this surplus....."

"One should be aware of the full implications (of these recent statements) - the United States and the Community account for roughly half of the world trade. If the rhetoric we hear of trade warfare is translated into action, the consequences would be difficult to assess."