

CHURCHILL MEMORIAL LECTURE

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THE FUTURE OF THE EUROPEAN COMMUNITY

I am honoured to give the seventh in the series of Churchill Memorial Lectures. My distinguished predecessors have all spoken, directly or indirectly, on matters of concern to the future of Europe. That indeed was the principal concern of the great European to whose memory the lectures are dedicated. It is therefore fitting that I should have chosen as my own theme the specific question of the future of the European Community.

It is also a bold theme. Some people have even asked whether the Community has a future. Four years as President of the Commission have given me a certain view about what its future might be, or rather of the choice of futures which its members will have to make. I do not think all yet realise the nature of the choice. Nor that they will have to make it soon.

In this place and before this audience I do not have to talk about the origins and subsequent history of the Community. I limit myself to a few underlying points. First we should never forget that the institutions of the Community were born of a political need to reconstruct a Western Europe devastated by war and diminished in

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influence; and of an economic need to pool resources and establish the base of a modern industrial economy. The constitution which was drawn up as a result is the Treaty of Rome as subsequently amended. Thus the Six founding members, whose traditions were rooted in the Latin legal system, gave themselves, as was natural, a written constitution in which powers and competencies were worked out in intricate detail. A certain balance was struck between a respect for the sovereignty of the participating states and the grant of powers in economic, legislative and judicial matters to the four Institutions. But the Treaty of Rome is also the product of a political heritage which goes back to Plato for whom the form and the idea have almost as much reality as reality itself.

An underlying difference within the Community, particularly between the founding members and the new members, was - and is - over the attitude towards institutions. The influence of the Latin world reached the North and North-West, but it was relatively feeble and soon overlaid by other influences. In these parts of Europe habits and hallowed practice had more importance than the written word. Practical reality was regarded as a deeper although more obscure guide to action than forms or ideas. The Community is thus a meeting place of the peoples of the book and the peoples of custom.

The differences between them have considerable consequences, extending down to day-to-day affairs. For examples the people of the book attach particular importance to clarity of objective

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and written texts to correspond to it. Sometimes they feel that agreement on a formula deals with at least half the problem it is designed to solve. If it proves impossible to live up to the text, then exceptions to it must be found. But the text retains its purity and is the ideal and objective to which all should aspire. By contrast the peoples of custom attach more importance to the working of things to which texts are no more than an operational guide. For them a text is a beginning rather than an end. They seek to give precise fulfilment to it so long as it corresponds to reality. But if and when it ceases to do so, they prefer to change it or leave it behind rather than make exceptions to it. Hence they prefer to avoid texts of more than general character. Inevitably the Commission is a frontier area between these traditions; and in the last four years I have seen both irritated incomprehension and fruitful interaction between them.

My compatriots did not participate in the composition of the Treaty of Rome. They could have done so, and it was their own decision to abstain. It was a major error of judgment and was soon recognized as such. By the time that the British, the Irish and the Danes eventually joined in 1973, the shape of the Community had become set, and it was too late for them to make the contribution which might have been theirs fifteen years earlier. The negotiations for enlargement from 1970 to 1972 were less concerned with fundamentals than with the balancing and

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satisfaction of limited political and economic interests. Thus the enlargement Treaty was in many ways a bed of Procrustes: that is to say some things had to be stretched and others had to be compressed if the fit of the three new Member States was to take place.

As we all know, the fit was not right in all respects. The negotiators on both sides did what they could, and no blame attaches to them. When the stretching or compressing would have been too great, they wisely left it to the future. One of the problems of the Community of 1980 is that that future has now arrived.

Before considering how to make the Community more comfortable for all its members, and better blend its component traditions, I want to emphasize its youthfulness in the context of history. We sometimes forget that the Community as such has only existed for twenty-three years, and that its present membership is only seven years old. Americans sometimes complain about the difficulties they have in dealing with the Community, in finding where the seats of power really are, and how its institutions really work. To them I reply that they have a Constitution 204 years old. They speak a single language; and in spite of regional variations, they have a common way of life. By contrast the Community represents a coming together of Nine, now Ten Member States, whose history goes back thousands rather than hundreds of years, with all their particularities, languages, and traditions.

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This new organism which is our Community has a skeleton represented by the Institutions, and flesh and blood represented by the policies which give it life. In looking at the way in which the organism may grow in the future, it is as well to see how it has grown in the past and something of its present anatomical shape.

First of course are the Institutions set up by the Treaty, our written constitution. The Council of Ministers brings together representatives of the Member States. In the early days some believed that the Council of Ministers might turn into a kind of Senate of the Community to work in partnership with a directly elected parliament in the guise of a lower House. Things have not worked out like that. At the beginning the Ministers of Foreign Affairs, and below them the Permanent Representatives, moved forward under the powerful impulse of European dedication. The counter-pull of national interest was less strong. Perhaps inevitably, the business of the Council has now become more of a routine, and the earlier sense of direction has diminished. On the one hand Ministers have shown themselves increasingly anxious to maintain national authority over the details of Community business, and, without putting too fine a point upon it, increasingly reluctant to give the Commission the scope to allow it properly to discharge its executive tasks; and on the other they have lost some of their power of decision, partly to their specialised colleagues in the fields of agriculture, energy, economic affairs and the rest, and partly to their Heads of State

or Government meeting three times a year as the European Council. The result has been that Ministers themselves show less and less inclination to attend meetings of the Council, and send their junior Ministers instead. This compounds the problem as junior Ministers often feel hesitant to take the sort of decisions which would have come more easily to Ministers. For their part the Permanent Representatives have also suffered in the process. Their lines of communication to national capitals are all too good, and experts have become too thick on the ground. Thus the process by which Member Governments interact within the Community risks becoming choked. Nearly every observer comes to the same conclusion. The Council should delegate more executive action to the Commission, and restore to each level of its own hierarchy the decision making powers proper to it.

Next I turn to the Parliament. Direct election of the Parliament is an essential element in the development of the Community. It was foreseen in the Treaty of Rome, and more recently willed by the Member States. Yet the Parliament has only limited powers: influence over the obligatory part of the budget; powers over the non-obligatory part; a variety of powers of superintendence over the Commission; and two weapons, or rather block-busters, to demonstrate displeasure: the power to reject the budget, and the power to dismiss the Commission. Unfortunately these powers do not measure up to the aspirations of a directly elected legislative body. There is a good deal
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that Parliament could do which it has not yet done, even within the existing rules, and it has yet to make its weight felt on European issues as national parliaments do on national issues. The Commission greatly welcomes the existence of a democratic body to which on the one hand we are accountable and from which on the other we derive a measure of legitimacy. The Parliament and the Commission, with their European rather than national constituencies, should be natural allies in the years ahead. It would be a grievous mistake for the Council and the Member States to stand too rigidly on their powers with respect to the Parliament, and to take too little account of parliamentary views in the decision making process. The Commission must do likewise. Otherwise I would fear for the effects of an army of highly articulate under-employed on the move between Luxembourg, Strasbourg and Brussels on the good functioning of the Community.

Then there is the Court of Justice. The importance of the Court has, I think, been underestimated. The principal job of the Court is to compel respect for the Treaties and interpret the law of the Community. Its judgments are legally binding throughout Member States. It can override national law and bring national states to book. The Court has so far done best of all the Community Institutions in blending the traditions of the peoples of the book and the peoples of custom. In due course the Court may come to play as important a part in the history of Europe as the Supreme Court in the history

of the United States. Respect for the Court, as for the rule of law generally, is an essential condition for the development of the Community.

Last I come to the Commission itself. This has not turned out to be the embryo European government to which some looked in the early days. In relation to its powers and responsibilities, it remains a tiny organization, some eight thousand three hundred people (including interpreters and translators but excluding those paid from research funds) to serve the needs of 260 million Europeans. The myth of a vast bureaucracy dies hard. The Commission maintains its basic functions to propose policies to the Council, and so far as the Council allows, to put them into effect. It exercises an increasing number of management functions, and could usefully exercise more. It retains full political independence. It is appointed by Governments but is the servant of no Government. It regards itself as increasingly accountable to the Parliament. As guardian of the Treaties it has a particular role with regard to the Court. But I do not pretend that as an instrument of European policy the Commission is all that it could be. It should be less hobbled by the Council, and less hobbled within itself. During my mandate as President, I have set in hand a comprehensive scheme of internal reform, based on the analysis of an independent review body, which has been carried through to the extent that the Commission can order its own affairs.

I now come to the new buildings outside the original edifice of the Community. There is the European Council

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which has come to play a central role. It has real advantages. Without it I do not think we could have created the European Monetary System, nor perhaps maintained the momentum towards direct elections. It can represent the political spearhead of the Community and sometimes points the direction of advance. But it has its shortcomings. It is not geared for taking executive decisions; it tends to diminish the authority of the Council of Ministers; and it has no direct link with the Parliament. These are not fundamental defects, and improvements could certainly be made without excessive difficulty.

Finally there is the machinery of political co-operation in which the Member States seek to co-ordinate their foreign policies towards the outside world. Within its self-imposed limitations, political co-operation has been a remarkable success. Examples range from its work on the Conference on Security and Co-operation in Europe which led up to the Helsinki Declaration to the recent Declaration at Venice on the Middle East. It has many possibilities for development. All I say here is that the distinction between political and economic problems is essentially artificial, and I would like to think that it will eventually become an integral part of the Community rather than an adjunct to it.

So much for the skeleton of the Community. Some of it has grown fast and some of it more slowly. It has responded to need as well as to planning. Inevitably distortions and blockages have developed. Yet when such

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distinguished people as M. Tindemans or more recently the Three Wise Men have been asked to give doctor's advice on where and how change should take place, their excellent prescriptions have been virtually ignored. One day we shall have to return to them, although I do not think that in view of the scant respect with which their reports have been treated we will find it easy to get figures of note to do such work in the future. For the moment we have the consolation that with all its imperfections the Community is continuing to grow, and growth sometimes imposes its own solutions to problems.

I turn now to the policies and responsibilities which are the flesh and blood of the Community. First there are the areas where the Community is well established. Its powers over coal and steel have their origins in the federalist 1950s. Recent events in the steel industry show that these powers are far from defunct. Some of them are now being used for the first time. Then there is competition policy which has served to set the ground rules for a fair and unified market. Next there is agriculture. However great the current problems of the Common Agricultural Policy, with rising costs and the continuing surpluses of certain products, few would, I think, deny that the Common Agricultural Policy has already gone far to meet the objectives laid down in the Treaty: to make the most of our agricultural resources, to ensure a fair standard of living for those engaged in agriculture, to stabilize markets, and to assure supplies. So far as the outside world is concerned, we have established a common

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external tariff, and the Commission negotiates for the Community as a whole on matters of trade. Moreover we have established a fruitful Treaty relationship with the sixty relatively poor countries in Africa, the Caribbean and the Pacific which are tied to Europe by history, interest and tradition. All this represents no mean achievement. In these areas the Community is at its most effective.

Then there are what might be described as the new areas of Community activity. One of particular concern to me has been the creation of the European Monetary System and its currency unit the ECU. The future European Monetary Fund will be of crucial importance to the Community. Already Member States have greatly improved their co-ordination of macro-economic policies. Underlying them is of course the problem of energy. We have made some progress towards common energy policies, but in my judgment not nearly enough. Last March the Commission put forward a plan for a Community energy initiative designed progressively to harmonize prices and taxes throughout the Community, and establish a properly financed programme to promote energy saving, to substitute oil by energy from other sources, and to develop renewable sources. We have pursued the development of regional and social policies, small as the Funds for them are, and sought to produce coherent industrial and related policies to give more practical meaning to the notion of the common market. Then we are at work on a common fisheries policy to share the resources of the sea on a Community basis. Not least we are furthering

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the international role of the Community as shown in the multiplicity of association and trade agreements we have made round the world; and in the elaboration of common policies towards both the third world, and towards our industrial partners at and through such events as the annual Economic Summit meetings, where it is now firmly established that the Community is represented by the President of the Council and the President of the Commission.

Thus we have the traditional areas, and the new areas. In fairness I should add that there is one area in which I fear we have in some respects gone backwards. That is Euratom. There the hopes of early days have been disappointed, and Member States have to some extent gone their own ways. This Commission has sought to halt this backward trend and establish in more realistic fashion the place and value of common policies in the nuclear field. Our difficulties here illustrate the point that the Community only proceeds in response to need and by consent. But I think it most important that we should not allow Community law to be brought into contempt by being ignored or flouted. If the law is defective or out of date, it should be changed rather than defied.

This then is our Community: a living, growing, uneven organism, responding to needs, adapting itself to new circumstances, uncertain sometimes where it is going, and increasingly, almost imperceptibly, dominating its political and economic environment.

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I come now to what I described earlier as the choice of futures. For the Community has defects which, if they are not put right, could stunt its growth, and lead to dangerous maladies of the spirit as well as of the body. There are three such problems which separately or together could have this effect. I will say a word about each of them.

First there are increasing economic differences and divergencies within the Community. No-one has ever expected consistent equality of performance or exactly the same standards of living throughout the Community. But recently the gap between the richer and the poorer countries and regions has actually widened, and the power of favoured industrial areas round the geographical centre of the Community has grown at the expense of the more distant parts. We have not been successful in spreading prosperity more evenly, and if we do not do better in the future, I fear greatly for the cohesion of the whole. In my view we shall not reverse this trend until Member Governments see their macro-economic problems in Community as much as national terms; and the Community must develop instruments sufficiently strong and well endowed for the purpose. Here the European Monetary System has an important supporting role.

Second I believe it to be even regrettable and dangerous if the Community is called in aid by Member Governments only when something goes wrong with the older parts of industry but is not allowed to contribute to creation for the future. The Community has a far greater

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involvement in such industries as steel, shipbuilding and textiles than in the advanced industries of the future. Increasingly in the last four years we have been required to act as vets in devising and tying splints to the legs of lame ducks. Yet the need for a co-ordinated Community approach towards the new industrial base which Europe must have if it is to continue as a leader of industrial power has never been clearer. Here I speak particularly of the field of computers, information processing and telematics. If members of the Community are to compete with the United States and Japan the Community itself should develop a single market with single standards and methods of communication, and give the necessary co-ordinated support to the development of micro-electronic technology.

The same goes for the field of defence procurement. At present the European members of the Atlantic Alliance buy around ten times more military equipment from the United States than the United States buys from them. Defence is not a responsibility of the Community, but industry is; and as the Americans have well shown, defence-related industries are often the catalyst for advanced technology and industrial development.

Third I come to the means by which the Community raises its money and the pattern of its expenditure. This is an area where the rigidity of the bed of Procrustes caused a major internal crisis this year, and will certainly cause new crises if change does not take place. The problem is sometimes called the British problem. This is a misnomer. It is the
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budgetary problem, and it affects all Member States to a greater or lesser degree. Stated briefly we have a revenue system which was invented in 1970 before Britain, Ireland and Denmark joined. To some extent but not entirely, it met the needs of the founding Six. But it does not meet those of Britain and it diminishingly meets those of other members of the Community. None of the sources of revenue is fully buoyant, and two - customs duties and agricultural levies - tend actually to diminish as trade within the Community increases. The third source - Value Added Tax - is subject to a ceiling of one per cent, to which governments are naturally attached. Thus there is a painful conflict of objectives. The more successful Member States are in trading with each other, the less the Community is able to finance itself.

Then there is the expenditure side. Money devoted to agriculture has taken up around three-quarters of the budget for many years. This is good for countries with a large agricultural community but not so good for those which have concentrated their resources on other economic activities and which import agricultural products from other members of the Community or from countries outside it. Also agriculture's share of the work force and economic product has declined while its share of the budget remains dominant. By comparison with agriculture, the other heads of Community expenditure are puny. The result is that we have a Community most of whose wealth comes from industry, most of whose expenditure goes on agriculture, and most of

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whose needs in other fields are scarcely recognized.

The founders of the Community would, I think, be dismayed to see the lop-sided outcome of what they had designed twenty-three years after the event. It was the combination of an undynamic revenue system with an uneven expenditure system which led to the temporary and ad hoc agreement on the British budgetary contribution last May, and gave the Community two years in which to set itself to rights.

Each of the three problems I have mentioned - economic divergence within the Community, the failure of the Community to adapt itself to the industrial needs of the future, and the deficiencies of the budget system - will be made more acute by the enlargement of the Community to the south to include Greece and eventually Spain and Portugal. The question is how we now proceed.

Since the crisis over the budget of the spring, the Commission has been at work on the mandate with which it was then charged. As you may recall the Commission is required to complete before 30 June next year an "examination of the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, nor the basic principles of the Common Agricultural Policy." In making this examination we are of course taking into account the situations and interests of all Member States, and our aim is to prevent the recurrence of unacceptable situations for any of them.

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We in this Commission are doing all the preparatory work, but the responsibility for the submission of the paper with its crucial political advice must be left for my successor and his colleagues in the next Commission. I shall not attempt to anticipate their conclusions. But as a choice of futures for the Community, there are three broad possibilities with many variations within and between them. These are, first to change the unitary character of the Community and lift the obligation from Member States to participate in all its affairs at the same time and in the same fashion; second to patch up without radically changing the present budgetary system, and to maintain the present limitations upon it; and third to embark on a more radical plan of reform designed better to accommodate and balance the interests of present and future Member States.

The idea of what has been called Europe à la carte, or two- or three- or four-speed Europe, has a certain spurious attraction. The main argument for it is the notion that the interests of the Member States, particularly in a Community of more than the original Six, are so fundamentally divergent that rather than force any on to the bed of Procrustes it would be better to let each have a bed of his own. This idea has proved tempting in the past, particularly for those who wished to enjoy the benefits of membership without accepting the necessary disciplines. In my judgment acceptance of such a notion would ineluctably lead to the end of a real Community.

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Without a common discipline or readiness to make sacrifices for the common good, the elaboration of common policies, which inevitably requires give and take, would be virtually impossible. In particular the system of common financing which we now enjoy would become unworkable. Earlier this year the row over the budget threatened the common system in this sense; for if one Member State made it clear it would like to see a ceiling on its putative deficit in respect of the Community budget, then others indicated they might like to see a ceiling on the putative surpluses enjoyed by others. Obviously no Member State could accept a large and permanent imbalance; but to have a rule whereby all countries paid in to the budget no more than they took out, or whereby their net receipts or contributions were limited to a fixed annual amount, would make an absurdity of all financial discipline by breaking the link between policies and their budgetary consequences. It would subject the sense of Community to intolerable strain. It was for this reason that in finding a temporary and ad hoc solution to the budgetary difficulties of the United Kingdom we firmly maintained the principle of the present budgetary system while looking to its future reform.

The same point applies to agriculture. To abandon common prices in favour of national prices would mean the creation of barriers to trade between Member States and the eventual abandonment of the common market in agriculture. This would quickly make it difficult to maintain the common market in industrial goods. We have

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already seen the way in which the system of monetary compensation in agriculture has set up tensions and centrifugal forces which at one time threatened to tear the policy apart.

Equally important is the political argument. A Community in which some states did some things and others did others would tend to produce groups of alliances within the Community, and a working directorate of those who committed themselves to most policies. Some Member States would thus be more equal than others, and the present balancing mechanisms enshrined in our procedures would effectively be set aside. There is already talk of this or that axis within the Community. A Community to which Member States had different degrees of commitment would surely end by destroying the Community.

I would like to return to something I said in Rome on 24 October. I was speaking of the European Monetary System and its future, and I had occasion to say how much I regretted the continued absence of sterling as a fully participating currency. This is not the place for a technical examination of the advantages or disadvantages. I make the simple political point that if Britain does not become a full member of the European Monetary System, if it does not accept the same risks and responsibilities as the others, then the British must not complain if the System evolves in a fashion which does not necessarily take account of the political characteristics of sterling and the underlying

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economic circumstances in the United Kingdom. Here in short is an example of two-speed Europe in the making. I believe it to be contrary to the interests of both the United Kingdom and the Community.

The second broad possibility would be to patch up the existing budgetary system without radically changing it. There are obvious superficial advantages in this course. There is nothing so easy as to leave things as they are and let inertia continue into the future. At a time of economic recession, major changes, involving damage to vested interests already in difficulty, are not superficially attractive. Moreover I know of no government which does not wish to maintain the same firm limits on Community expenditure as it is applying to national expenditure.

Yet a patching up operation could be more difficult than at first appears. The present budgetary system simply does not work to the satisfaction of all Members of the Community. To correct it sufficiently within the current limits of our financial resources would require changes in the pattern of expenditure, in particular reductions in agricultural expenditure, which would in themselves be drastic and politically painful. Moreover even if we were able substantially to reduce agricultural expenditure, we should not be able to find the funds we need to deal with the other two major problems I have outlined: the increasing economic divergence within the Community, and the need to adopt a Community approach to the renovation and redirection of European industry. There is, I am

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afraid, a risk that some governments will wish simply to patch things up, shrink from tackling the agricultural problem, and leave the imbalances in the budget to be settled by a continuing series of temporary and ad hoc arrangements for countries whose situation would otherwise be unacceptable. This would not be a tolerable outcome, and events would soon show it.

The third broad possibility is at once the most difficult and the most desirable. It would conform with the mandate given to the Commission in that it would fully respect the principle of joint financial responsibility and the basic principles of the Common Agricultural Policy. But it would involve a substantial reshaping of both our revenue system and our expenditure system. Let me say a word about both. On the revenue side we need a system of own resources which is buoyant and balanced in a way that the present one is not. This is not the occasion for setting out detailed ideas on a subject which greatly occupied members of the Community and produced much work some ten years ago, but I think we should look again at some of the ideas which were then discarded, such others as the imposition of an oil import levy (naturally to be combined with an oil production tax), and of course raising the present ceiling on the yield from Value Added Tax. There are many possibilities and I do not seek to prejudice the task of the future Commission by advocating any single one of them.

As for the expenditure side, I doubt if we can achieve major reductions in the volume of agricultural expenditure. That would

involve whittling away at common policies, and returning at least some of the responsibility to Member States. We can certainly make savings in the interests of efficiency, and the Commission has suggested many in the last few years. I believe that our realistic objective should be to hold agricultural expenditure in real terms at something like its present level taking account of the continuing rise in costs and of inflation generally. But if agricultural expenditure is to be held, then expenditure on non-agricultural activities should greatly increase. Here is the means by which we can on the one hand deal with the problems of economic divergence and the future European industrial base, and on the other hand establish that better balance within the budget which is indispensable if the needs and circumstances of all Member States are to be respected.

I am not suggesting a vast expansion of the Community into areas hitherto the responsibility of Member States. We must only give to the Community those functions which will yield significantly better results because they are performed at a Community level. We must fashion a Community which gives to all Member States the benefits which they cannot achieve so well by themselves and leave to them functions which they can do equally well or better on their own. At one of the European Councils next year I should like to think that there can be a discussion to identify those functions, and so chart the way ahead. In support we shall need financial policies to give the Community the means to do the job.

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At the moment our expenditure is less than one per cent of the Community's gross national product. Without going all the way with those economists who have suggested that it should rise to around five to seven per cent, I believe that a properly balanced Community in the sense I have sought to describe should be at least of the order of two to two and a half per cent of Community GNP. I add that although the sums this would yield would be large by current standards, they would be small by those of such classic federations as the United States where the top tier of government takes between twenty to twenty-five per cent of GNP.

Such a reorganising of the Community budget would of course transform the Community. I do not think we could take such a step at once. But I strongly believe that we should set ourselves on the budgetary path which would permit the development of a Community of this scale and function. Seen in this way I do not think that the choice of futures should be too difficult. One offers the kind of Community commensurate with the vision of our founding fathers. The others represent temporary tinkering rather than a thrust to the future.