THE EIGHTH ANNUAL ATTLEE LECTURE

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"BRITAIN IN EUROPE AND THE WORLD"

by

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I am delighted and honoured that, following a suggestion by my friend Arthur Bottomley, I have this opportunity of delivering the 8th Attlee Memorial Lecture.

I must say at once that I hardly knew Clem Attlee - certainly by comparison with many of the trustees and the lecturers who have preceded me in this series. My war-time work as a civil servant was largely in Washington and during my visits to London during that period I was completely immersed in the activities of my own department, the Ministry of Food, although I did have one or two opportunities of seeing Attlee at meetings, but at the distance appropriate for a "middle-level" civil servant. After the war, these opportunities increased and I had a number of occasions, particularly during my work on the Marshall Plan and in NATO, to see him in action.

When, at the time of the Korean war, he went to the United States, I was brought from Paris, where I then served, to be a member of the group of officials who accompanied him to deal with some of the economic consequences that were expected. I should say that it was a time, when we were, rightly, I fear, suspected of flirting with the possibility of moving the focus of the economic work away from Europe, and my presence was largely designed to reassure our European partners in the OEEC that "Europe would not be forgotten". This episode illustrates one of the points I shall be making - the ever-present anxiety of the British Government to strengthen the "special relationship" with the United States but trying hard not to abandon its European role.

I think Attlee would have approved of my choice of subject since whether his answer to any particular problem proved to be right or wrong, he never failed to identify very clearly what the problem actually was. Speculation in these matters is always hazardous, but I think that, were he with us today, he would agree that for this country a resolution of the relation between its position in Europe and that in the world at large, including particularly vis-à-vis the United States, is the overriding economic and political problem in the external field.

This is one reason why I have chosen to speak about this theme to you tonight. The other is that although for the greater part of his life Attlee took a very different view of Britain's relation to Europe from the one I am going to present, his own attitude and the indications of a change in it in later life are symptomatic of a deep-seated dilemma that has troubled British thought and British policy, certainly since the end of the Second World War and perhaps even before then - after the First World War.

There is no doubt that Attlee was hostile to any idea of closer European integration that included Britain. The history of the Marshall Plan shows very clearly that while Britain recognised - indeed Ernie Bevin was foremost in grasping the opportunity - that the Marshall Plan was an absolutely vital necessity not only for the economic survival of Britain and Western Europe but perhaps even for the survival of democratic institutions, it tenaciously resisted all attempts from our Continental friends (strongly supported at the time, as it is today, by the Americans) for closer integration, whatever form that might take. A minimum of joint programming which was inevitable if the Marshall Plan dollars were to be forthcoming and, for the rest, a sort of spontaneous co-operation brought about by market forces (perhaps a strange idea for a Labour government to

propound, at any rate at that time) was to achieve whatever was necessary.

While the commitment to planning, which was to be the core of economic policy, and, therefore, the need for a free hand for economic experiments, including continued control of foreign trade and foreign exchange, was an important element in the government's ideology, the issue of "sovereignty" as such, i.e. the unfettered right of the British Parliament to order our affairs, was probably as strong a factor with most of the Labour leaders as it was with the Conservative opposition. Attlee was, I believe, often heard to refer to the feeble parliamentary roots of other European countries and their unstable political records - a sentiment which was certainly very widely shared by politicians of all parties and indeed by probably the majority of public opinion.

Another element that brought about this hostility to the ideas that were associated with Monnet, Schumann, Adenauer and de Gaspari, all, incidentally, Catholics, was a strong attachment to the Commonwealth. This may seem somewhat paradoxical on the part of a Labour Government and a Prime Minister who played such a notable part in the gradual loosening of the old imperial ties and particularly in the creation of an independent India. However, I do not think that there was a fundamental

inconsistency here. The vision of a freely co-operating Commonwealth serving also as a model for a future world organisation was not in contradiction to, indeed it was highly compatible with, a rejection of close institutional ties within Europe.

Yet, it should be remembered that in the last years of his life there seems to have been some change in Attlee's attitude and a rather more favourable view of European attempts at integration - at any rate in principle - seems to be discernible. Be this as it may, I must in any event emphasise that Attlee's "anti-Europeanism" was not that of a "little Englander". He was profoundly attached to the idea of World Government and it was in that context, no doubt, that European integration would have appeared to him as something even less than a second best.

I mention all this not so much as an excursion into Attlee's own views on Europe of which others, I am sure, are more qualified to give an account, but rather because it was symptomatic for much of the troubled thinking on this subject of opinion-formers, decision-makers and the general public alike for the greater part of the post-war period. Indeed, who would be confident that it is not so to this day? Certainly, as far as Attlee's own party is concerned, despite a very

marked recent change in attitude to current European problems, there is still clearly a strong element of the old antagonism present. I think in many ways the views of Hugh Gaitskell, a man of my own age and a friend from the days when we were both young teachers of economics, are perhaps even more illustrative. Nobody could deny Gaitskell's Europeanism in the sense of a considerable knowledge of, and attachment to, Europe, of which his travels on the Continent, and particularly his ties with the Austrian Social Democrats, were ample proof. More generally, he was very much of an internationalist. At the same time, he shared the antagonism to what seemed to be the excessive free market bent of continental governments at the time of the Marshall Plan. He also had a very powerful attachment to the Commonwealth, which he felt might suffer economically by the actions of a more integrated European Community. His profound belief in the Atlantic tie - another major strand in British attitudes in all parts of the political spectrum made him a strong supporter of Nato. It may well be that his biggest mistake as Chancellor was to have supported a great increase in the defence programme at a time when it competed with the needs of our own export industries.

Before I go any further, let me say at once that while I have talked about Attlee and Gaitskell and the Labour Government generally as it dealt with these

questions at the time, it would be very wrong to identify one or the other of the main British parties with a pro- or an anti-European attitude. Both attitudes were - and I think still are - strongly represented in both parties. What may at any one time appear to be the prevailing party trend, is, more often than not, dictated by what is perceived to be political advantage, i.e. the attraction to the voter. I say this in no cynical sense: in a democratic system this is an entirely natural and by no means, shall I say, ignoble motive, although one would always hope that behind it, at whatever remove, there lurks some genuine conviction of what is, in the long run, the right policy towards which politicians should lead the electorate.

Leaving aside altogether its effect on the policy of political parties and their varying attempts to anticipate, catch, or even fashion, popular opinion, as far as foreign policy, whether economic, political or strategic is concerned, the history of our country in the last fifty years or so is full of very troublesome difficulties of choice. The waning of our imperial power and the re-fashioning of power relationships in the world generally proceeded much faster in reality than its reflection in people's thinking. That was a long process and certainly not immediately traumatic. It is only when looking back on the past that one can see that the Pax

Britannica of the 19th century largely based on the British Navy and accompanied by an economic Aequilibrium Britannicum, operated largely by the Bank of England, could not be sustained beyond or even through the 1st World War. Certainly the recognition of the absolute necessity of American support, not only for this country, but for the whole Western system after the 2nd World War, did have a profound influence on policy makers, even if it only slowly penetrated the consciousness of the general public.

To the various reasons which I have already mentioned that made Britain hesitant or unwilling to respond positively to the post-war manifestation of an urge towards European integration - much more powerful than the old pan-European movement - spearheaded by Monnet and by his conviction that a Franco-German alliance was essential to remove any danger of future wars in Europe, one might add a fear, justified now and again, of a "third force", that is a neutralist attitude gaining ground on the Continent. The fear that our neighbours might be more ready to listen to Russian blandishments, and thereby weaken the alliance with the United States, which was regarded as the cornerstone of British policy was not entirely fanciful. The effective withdrawal of American policy from European affairs after the First World War was a powerful reminder of the need for tenacity in this

regard. Today, these fears may appear extraordinary, but it must be recognized that they were widely felt in the early post-war period.

How to find the right way to deal with this jigsaw, how to operate within the North Atlantic alliance, while taking account of the remaining Commonwealth ties, and how to deal with the increasing pressure for closer relations with the Continental countries of Europe (as I have said, perhaps paradoxically, largely supported by the United States) was clearly enough to tax the most accomplished statemanship.

I do not want to go further into these very large questions which have preoccupied many thinkers and writers in recent decades. What I would like to do is to trace briefly the expression of these multifarious difficult choices through the main stages of the post-war European integration movement, and then devote the final part of what I have to say to the problems facing us in this regard at the present time.

The nearly four decades from the achievement of the first European recovery programme around 1952 until the present day can roughly be divided into the following phases. First, the period up to 1961. These ten years saw the consolidation of the Organisation for European

Economic Co-operation (to which later the task of development was also added) and the establishment of Nato resulting in a certain tug of war between maintaining the OEEC as the focal point for economic co-operation and the development of the economic activities of Nato. The British government was at first very much inclined to the latter, partly because economic cooperation would then be linked to the most significant of the inter-allied activities, namely defence (and one in which Britain's position was much stronger than that of the other Europeans), and partly because it meant a close association with the United States.

The other tug of war was between the concentration on OEEC and Nato on the one hand, and the American-supported drive for closer European co-operation between a narrower group based on the Schumann Plan for the coal and steel industry, to which later atomic energy was also added. There is no point here in going over the details of these difficult ten years - difficult in the sense that they involved a delicate balancing act between the European and Atlantic dimensions on the part of those responsible for carrying out British foreign policy. Although Britain refused to participate in the Schumann Plan, it was quick to establish diplomatic relations and close co-operation with the Coal and Steel Community in Luxembourg. There were some attempts during this period

on both sides of the Channel to develop closer Anglo-Continental, or more particularly Anglo-French, ties on a non-supranational basis as an alternative to the Coal and Steel Community, but these came to nothing.

When the original six of the Schumann Plan began negotiations for a closer, general, economic Community, Britain stood aside, and after a short period decided not to participate in the negotiations that took place in Messina and later in Brussels which led to the drawing-up and adoption of the Treaty of Rome. Apart from the more fundamental reasons for the British attitude, to which I have already referred, during this period - the middle to late '50s - there was also considerable scepticism in Whitehall and Westminster as to whether the Six would succeed in their ambitious attempts to form a wider economic union of a supranational character. Nevertheless, as it later turned out, the old French saying that those who are absent are always wrong, fitted our decision perfectly. In fact, we never quite managed to catch up.

The next phase, however, saw the decision by the Macmillan government, arrived at after intensive study and debate in 1960 and 1961, to seek formal admission to the Community. This is not the place to analyse the various factors which led to this turn-around in British policy.

What is, however, worth stressing is that this was a change on the part of the Prime Minister and the leaders of government, which was by no means fully shared by parliament or public opinion generally. At the time of the formal application in 1961 the country was still very severely divided on the issue. This division, I am sure, exacerbated the difficulties which arose during the subsequent negotiations that lasted roughly 15 months. In a sense the problem was "solved" when in January 1963 de Gaulle decided - at a time when the negotiations might well have been on the point of successful conclusion - to veto our entry. Later that year Labour again came to power and once again there were substantial divisions inside the Cabinet between those who wanted to resume the negotiations and those who were only too glad that they had come to an unsuccessful end.

In fact - as can now be seen - despite occasional attempts to take the issue up again nothing of great consequence happened for very nearly ten years, and it was not until 1972 that under Ted Heath's leadership, as de Gaulle had forecast, Britain finally became a member of the Community. At that time, some 15 years after the signing of the Treaty of Rome, the Community had only a limited list of achievements to its credit. There had been the Common Agricultural Policy, fashioned very largely to reconcile German and French reciprocal

concessions on agriculture and industry, and mirroring the war-time régime of the Netherlands (it was a Dutch Minister who was the EEC Commissioner responsible for it); some conventions for relations with under-developed countries in Africa; the abolition of some intra-community tariffs and other trade obstacles; and the beginnings of a common commercial policy towards third countries. These were not exactly very substantial Community achievements, with the exception of the Common Agricultural Policy, though that, while certainly substantial, could hardly be regarded as a great success. It was costly, it was not particularly welcome to the farming communities of the member countries, and it was distinctly illiberal towards outside countries, which produced similar, temperate zone, foodstuffs. In particular, it made things no easier for British membership as far as our own agricultural community and our relations with other Commonwealth countries were concerned.

The result was that the negotiations, after our entry, turned on the financial burdens of membership, that is to say the community's budget and in particular the cost of the Common Agricultural Policy. The endless wrangles, sometimes very stormy, are now a part of history and not really worth going over again, except - and this is worth stressing - that this difference between us and

the original Six (the other newcomers, Denmark and Ireland, were not so involved) not only soured the atmosphere both in London and Brussels, but probably contributed to the relative barrenness of further Community development up to about 1979. It is also worth mentioning that in 1970, before our entry, the Community first examined the possibility of a wider monetary and economic union based on what was known as the Werner Plan after the Luxembourg Prime Minister who produced it. Nothing much came of it, but those with an academic interest would find the discussions at that time not very different from those which are taking place today and of which I shall speak in a moment.

After some experiments with ways of reducing exchange rate fluctuations between members of the Community, a decisive step forward was taken in 1979 with the setting-up of the European Monetary System, largely on the initiative of Helmut Schmidt of Germany, Giscard d'Estaing of France and Roy Jenkins, the first British President of the Commission. Britain became a member of this System, but not to the full extent; in particular sterling was not a part of the Exchange Rate Mechanism, which was the crucial operating piece of machinery for ensuring that exchange rates did not move beyond certain pre-set limits. The EMS is now just over ten years old. While its early history is not very impressive as a record

of stability, it subsequently improved greatly. Until the recent change consequent upon the freeing of exchanges in Italy and the reduction of the Italian Lira's margin of fluctuations, no realignment had taken place for some years. Moreover, the exchange rate stability which the system engendered, has proved to be beneficial to a number of countries, notably France, in fighting inflation while safeguarding growth.

It is difficult to say exactly what was responsible for it, but it is enough to record that in the mid-eighties a major new change occurred. In 1985 the member governments, now numbering 12, i.e. including Spain, Portugal and Greece, agreed on, and ratified through their parliaments, the "Single Act". This reiterated the ultimate objective of full economic and monetary union and committed the member governments to the creation of a single market, with the year 1992 subsequently being set as the target date. The Commission was set the task of devising the means for achieving it, and this took the form of nearly 300 so-called harmonisation directives, designed to ensure as far as possible a "level playing field" for all the economic enterprises for all the countries in the Community. The commitment to the Single Market was reiterated and reinforced by a series of declarations at various Summit Meetings of the European Council at Hanover and Rhodes,

and a truly most creative and energetic period of activity then began. In addition to the commitment to a Single Market by 1992 there was a specific engagement to create a single financial area based on uniform rules for the various branches of the financial services industry and on a commitment to abolish completely all obstacles to capital movements in the form of exchange control by July 1990. Only a very few exceptions were allowed for some of the weaker members of the Community. The two important countries which still maintained such controls, i.e. France and Italy, were to abolish them by the due date. The Italians have, in fact, already done so.

Then, a few years later, the Community having re-emphgasized the ultimate objective of economic and monetary union, set up a Committee under the chairmanship of the Commission President, Jacques Delors, with the 12 Central Bank Governors (in their personal capacity) and three independent members, to examine and report on the conditions necessary for the achievement of such union. This report was published last year. Its analysis and recommendations (together with the continuing work for the achievement of the Single Market) forms the raw material of the Community's current work.

It is worth stressing that while in the course of the negotiations leading up to these decisions the British

Government had made no secret of its doubts, hesitations and general lack of enthusiasm for further integration (with the notable exception of the Single Market itself), we were nevertheless formally parties to all the solemn declarations and commitments that had been made.

What then is now in course, what is still uncertain and what are the aspects of the process on which the Community is now engaged with which our government is not in agreement - which are, in fact, still matters for debate within British public opinion?

I think these questions can be combined and put very simply as follows:

Short-term:

(a) Should we enter into the Exchange Rate Mechanism?

(b) Should we constructively participate in the intergovernmental conference which is to begin its work at the end of this year and which will consider what further steps towards monetary and eventually economic union may be taken, and what would be their consequences in terms of constitutional developments?

(c) If a consensus develops in Europe, as it well

might, that further steps, more or less on the lines of the Delors Report, should in fact be envisaged, what should be the British attitude, and in particular what should be the British view if, as a result increasingly "federalist" tendencies emerge?

(d) And finally, what is the effect of recent developments in Eastern and Central Europe and in the Soviet Union on the European Community and its further evolution?

Let me take these not necessarily in quite this order. I believe - and I think this is an increasingly common view - that we should soon, that is before this year is out, become mebers of the Exchange Rate Mechanism. I must admit that this is not as easy as it might have been at various other times in the past few years. We now have a higher rate of inflation in the United Kingdom than the other member countries, and, therefore are likely for some time to have much higher rates of interest. The effect would be that sterling inside the ERM would almost certainly be pressing against the ceiling of the permitted margin; and this, while useful as a tool against inflation, would be disadvantageous from the point of view of external competiveness, that is the balance of payments. Nevertheless, I think the balance of advantage

is in going in and having the discipline of a relatively stable exchange rate to help us achieve economic growth without excessive inflationary pressures.

I think the further progress towards monetary and economic union, particularly the latter, with its inevitably closer co-operation on budgetary policy, raises more considerable political problems. I do not believe that it is necessary to envisage, for many years at any rate, anything like complete Community influence on the details of national budget-making. However, the general thrust of the budgets of, at any rate, the major member countries, will necessarily have to be broadly similar since otherwise the Exchange Rate Mechanism could not possibly stand the strain. I think the process, even if one is sympathetic towards it, as I am, will take quite some time.

The extraordinary and totally unexpected changes in the rest of Europe undoubtedly present a new situation and new problems. It is sometimes argued, and with, I think, a certain plausibility, that in the light of what is little short of a major revolution, it would be unwise to proceed with the plans for Community development as if nothing had happened. Nevertheless, I think this is the wrong conclusion. The problems thrown up by recent developments in the Europe outside the Community with the

emergence, or the hoped-for emergence, of new democratic regimes and more open economic systems in Central and Eastern Europe, and above all the reunification of Germany, which is now widely recognized as being inevitable, clearly demand a total reorganisation of the European security system as it has existed for 40 years. This involves first of all those responsible for the creation and maintenance of the system, that is to say primarily the major Nato countries as well as the Soviet Union.

How this is to be organised, what its objectives should be, are matters that fall outside my theme tonight. All I would say is that one should proceed in these matters, to use the standard phrase in the American Senate, "with all deliberate speed". However, one would clearly have to distinguish between developments one would have to see completed and those which could be left on one side for the time being. I fear that for example the development of a democratic system in Romania will take quite a long time, but I do not think that this will need to hold up the organisation of a new security system. On the other hand, the latter would not make much sense until it is clear what the political structure of the German Democratic Republic is going to be, and how it will relate economically and politically to the Federal Republic. This is clearly a central aspect of the new security

system as is the future stance of the Soviet Union. If that continues on the lines indicated by the man now primarily responsible for Soviet policy, Mikhail Gorbachev, there is every hope that an effective and reasonable new system can be constructed.

What is, however, primarily relevant to my topic tonight is whether this essential reorganisation of the foreign policy and security map of Europe necessarily means that getting on with the present plans for the further development of the European Economic Community would be a hindrance to that development and should be postponed. There are those who believe that. I do not. I think on the contrary that the strengthening of the cohesion of the Community, first in the economic field, but almost inevitably, and as a result of that, in the political field, would be a major help in the solution of the wider European problems. In any event, what is the alternative, and more particularly what is the alternative, for Great Britain? Can it be seriously argued that on our own, or at any rate with such varying and temporary alliances as we can achieve with this or that European country - Germany one day, France the next - or with the United States or the Soviet Union, in a new version of nineteenth century balance of power manoeuvering, we can serve our own interests, let alone those of Europe as a whole (and in the longer vista of the

world) better than in the closest possible conjunction with the partners in Western Europe (including others who may join in the relatively near future) with whom we have already worked together for nearly 20 years. I believe not.

Let me say one final word on my description of British policy hitherto. I have spoken about the post-war history of our relations with our Western European partners in terms which I admit are rather critical. I would, however, like to make it clear that I am very conscious indeed of the fact that at any moment in the last 40-odd years when choices which I have already described as extremely difficult had to be made, a very good case could be made for the choice that was actually adopted. There were of course many who even at those times argued in favour of different courses, but it is essentially as an exercise in hindsight and in exercising the privilege, as it were, of a historian looking at the past, that one becomes aware of false choices and missed opportunities. For me in particular, when I think back over the extraordinary position which this country occupied morally and materially and, therefore, in effective influence in foreign policy at the end of the war, and which would certainly have enabled it not only then, but even at many subsequent points in our European

history, to assume the leadership, I cannot but regret that these opportunities have been allowed to go by - not only to our own disadvantage but, I think, to that of Europe as a whole.

R/GP