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NOTE FOR THE RECORD**SPEECH BY DELORS AT THE EUROPEAN PARLIAMENT SOCIALIST GROUP CONFERENCE ON CENTRAL AND EASTERN EUROPEAN ECONOMIES, 6 JULY 1990**

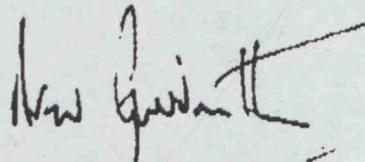
1. President Delors gave a speech today (6 July) to wind up a two-day Conference organised by the EP Socialist Group on the economies of Central and Eastern European countries.
2. Delors firstly considered it essential for structural adjustment to take place concurrently with economic action in these countries. EC cooperation should be geared to this end and not be confined simply to giving aid. Institutional decentralisation in central/Eastern Europe was needed, and this went hand in hand with the introduction of a market economy. But organising such markets, and introducing a spirit of competition - when alien to one's ideology - was not easy. Secondly, labour markets needed to be organised. Here, many Western countries - notably Sweden and Germany could offer good advice based on their own experience. Thirdly, public and private property would have to be redistributed - not forgetting that living standards depended on some property and services being provided free of charge (or almost so), eg telecommunications, transport links, education and health care. The basic message was that market economies should be created without recourse simply to adopting legislation. Appropriate people (such as the farmers in Poland) had to be identified in the countries concerned to carry out this marketisation process. Fourthly, Central and Eastern countries faced problems of debt and the environment, both of which would need to be tackled. Turning to trade links, Delors foresaw a continuing role for COMECON - at least in the medium term. The existing Western and Eastern systems could not be brought together over night, so the West needed to allow time for COMECON to adjust, open up and catch up.
3. Delors continued by speculating on a new international economic order. He outlined the following parameters:
 - i) **TRADE:** The easiest to deal with. Western European countries should open up their economies to Central and Eastern Europe and develop multilateral trade in order to integrate both sets of economies. Inevitably, sacrifices would be needed on the part of the West.

/ii) ...

- ii) FINANCE: A centralistic approach was unacceptable. Europe should not forget about the debt problems in other parts of the world. Money was available, but was not equitably distributed; so capital flows needed to be looked at.
- iii) CURRENCIES: A combination of weak currencies and high interest rates had made life difficult - particularly for Eastern Europe in getting loans.

Henceforth, there was a case for a new model of economic growth to replace the "ultraliberalistic" approach still advocated by the US and the UK. That approach was now losing ground to one of a "mixed" economy in which 11 Member States now believed.

4. In conclusion, Delors favoured a long period of engagement before further EC enlargement to embrace the countries of Central and Eastern Europe. Patience was needed. Meanwhile, the EC should continue to develop cooperation with these countries. The G24 approach was the right one and could be stepped up. The EC was developing cooperation with EFTA and had proposed a new type of agreement with Eastern Europe. Cooperation could also be broadened under the CSCE umbrella to include such areas as transport, telecommunications and energy.



A F N GOODWORTH

6 July 1990

cc: D Halligan Esq, HMT
M Arthur Esq, ECD(I), FCO
L Parker Esq, Cabinet Office
C Gray Esq, EED, FCO

Mr de Fonblanque
Mr Pakenham
Mr Bonney
Mr Baird
Ms Glynn



Office of the United Kingdom Permanent Representative
to the European Community

Rond-Point Robert Schuman 6 1040 Brussels

Telephone (02) 230 62 05

Telex 24312

Fax (02) 230 83 79

S Gass Esq
Secretary of State's Party
Houston Summit
by fax - 713 7580025

Your reference

Our reference

9 July 1990

Date

Fax in

John Gass

Secretary of State

INDEPENDENT REPORT OF DELORS' SPEECH, 8 JULY

9/11/90

1. As requested by the Resident Clerk I enclose a copy of the (front page) article by David Osborne in Saturday's Independent.
2. As you will see from reading the article, the headline is misleading. It is not Delors who warns against unfettered capitalism but J K Galbraith. Delors apparently spoke off-the-cuff and no text is yet available. But there is a short summary produced by his spokesman which I also enclose. I have underlined the sections in the summary which are reflected in the article.
3. We will continue to pursue and let you have a text or fuller report as soon as possible.

John Grant

J Grant

cc : N Westcott Esq, ECD(I), FCO
(by fax)

P.03

Bruxelles, le 6 juillet 1990.

NOTE BIO (90) 206 AUX BUREAUX NATIONAUX
cc. aux Membres du Service du Porte-Parole

Intervention du président devant la conférence sur les économies de l'Europe centrale et de l'Est, organisée par le Groupe socialiste du PE et l'Union des P.S. de la Communauté européenne (Bruxelles, 06/07/90)

Après avoir rappelé les tâches qui ont été confiées à la Commission, et sa grande humilité intellectuelle, le président Delors a souligné que notre effort était placé sous le signe de la coopération, et non de l'assistance. "Nous apprendrons autant de ces pays que nous leur apporterons".

Il a développé trois thèmes :

- 1) la problématique de la réforme économique,
- 2) le lien entre cette problématique et l'ordre économique international,
- 3) la dimension politique.

1) Face à l'extraordinaire diversité des situations, il s'agit :

- de faire le lien entre l'action conjoncturelle et l'action structurelle : un simple ajustement à court terme peut être très coûteux sur le plan social et même économique ; c'est pourquoi la Commission s'efforce de mettre l'accent sur les réformes de structure.
- à la fois d'inclure l'esprit de marché et de réussir la décentralisation institutionnelle. L'esprit de marché est avant tout un esprit de compétition et l'organisation des marchés n'est pas facile : d'où la nécessité de trouver les endroits où cet esprit existe déjà potentiellement, comme dans l'agriculture, et de faciliter l'organisation d'un marché de travail, fondé sur la notion d'"employability", au risque d'un accroissement du chômage ; "c'est là que les pays de l'Est ont le plus à attendre de nous". La question des coûts sociaux supportables est également fondamentale, sous son angle psychologique (ne pas engendrer des agents passifs ou opposants à la réforme).
- de prendre en compte la dialectique entre bien privés et collectifs : "les pays de l'Est ne devront pas jeter l'enfant avec l'eau du bain".
Comment déclencher un engrenage vertueux ? Car le temps presse, et deux contraintes fortes pèsent sur ces pays :
 - l'endettement : il y a risque que son poids excessif annule les effets positifs des autres mesures.
 - l'environnement.

L'insertion dans l'économie mondiale doit être facilitée, mais les réseaux d'échanges ne pourront être modifiés du jour au lendemain, sachant que ces échanges sont largement fondés sur des produits de la seconde révolution industrielle.

- 2) La question du nouvel ordre économique international va être regardée sous l'angle
- du commerce
 - des finances : "jamais, il n'y a eu autant d'argent dans le monde, or, il est introuvable pour certains ; c'est un obstacle fondamental à un ordre économique équitable"
 - de la monnaie : la surenchère constante des taux d'intérêts aggrave actuellement la situation des PVD.

Si le monde occidental a connu depuis les années 70 une vague d'ultralibéralisme, ce dernier perd de sa force. Le nouveau modèle de développement devra être plus respectueux de la solidarité, de la qualité de vie des hommes et de la nature. "Les pays de l'Est, ayant mis l'accent sur les biens collectifs, pourront beaucoup apporter de ce point de vue".

Il s'agit enfin de ne pas confondre économie de marché et capitalisme : 11 pays sur 12 de la Communauté appliquent l'économie mixte.

3) La discussion des mois qui viennent sera dominée par le concept de sécurité, et par la primauté des droits de l'homme. A partir de là, le choix existe entre le rêve et la réalité. Actuellement, l'extension de la Communauté serait un rêve : voir la longue adaptation de pays comme la Grèce, l'Espagne et le Portugal ; de plus, "l'entrée dans la Communauté n'est pas un remède miracle".

En attendant, la place est ouverte à des coopérations multiples : opération PHARE, qui vient d'être étendue, perspectives de développement (accords d'association, EUREKA, secteurs des infrastructures de transports, des télécommunications, de l'énergie, etc.).

Il n'y a aucun intérêt à affaiblir la Communauté, pour établir un cadre institutionnel prématuré. "L'architecture de la grande Europe sera un jeu de patience ; je vous conseille de longues fiançailles, la Communauté n'en sera que plus unie, solidaire et généreuse".

B D. Y

Amitiés.
Bruno Dethomas

THE INDEPENDENT

Delors warns against unfettered capitalism

JACQUES DELORS, the President of the European Commission, yesterday declared the "ultra-liberal" economic experiments of the United States and Britain dead and urged East Europe to beware the lure of full-blooded capitalism.

Mr Delors told a socialist conference on economic reform in Eastern Europe at the European Parliament that the world had to embark on an "intellectual revolution" to overcome international indebtedness and to query the doctrine of economic growth for its own sake.

He meanwhile advised the new East European democracies "not to confuse market economics with capitalism" and to look to West Germany, among the EC member states, as the best model for the development of mixed economies where liberalism was blended with some state intervention.

Mr Delors' advice was echoed by Professor J K Galbraith, of Harvard, who scorned the US for giving little aid while prescribing a shock transition to unrestrained capitalism, in spite of the social pain it would cause. It showed, he said, a "casual commitment to human deprivation - to unemployment, inflation and disastrously reduced living standards... Only a few years of suffering and all will be well. This - I choose my words carefully - is insanity."

Nor did the prescription match reality in the West, Professor Galbraith suggested. "In Britain Mrs Thatcher, and until lately in the US Mr Reggan and his acolytes, have

From David Usborne in Brussels

pictured themselves as arch-exponents of unfettered capitalism. In fact they owe their eminence to early generations of socially minded leaders who made their citizens economically and socially comfortable."

Mr Delors said the relative bad health of the US and UK economies showed "ultra-liberalism" had failed. The experiment "was on the way out, because it did not produce the results expected of it", he said, citing the budget deficit crisis in the US. "We have to work for a new equitable world economic order," he declared.

An immediate aim must be to alleviate dramatically the debt burden of Eastern Europe. The current distribution of money in the world, Mr Delors argued, represented a "fantastic obstacle to the resolution of the world's imbalances".

He warned the East European states not to dream of early entry into the European Community but to focus on developing relations with it through association agreements. "You must distinguish between the dream and the reality. The dream is that the Community of 12 will, in the next two years, grow to become one of 24," he said.

More than 120,000 East German industrial workers staged wildcat strikes yesterday in a surge of labour unrest over fears of unemployment in a new market economy, union officials said, Reuter reports.

Mr Arthur EEO (1)

Do we have a better report or the full text?

Secretary of State

has asked from

Houston.

9/11

*- See attached correspondence
UK Rep has been pursuing this since it was
drawn to attention last night by the Resident
Gen.*

9/11

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7 July 1990

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