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PRIME MINISTER

MEETING WITH SIR JAMES GOLDSMITH

You are seeing Sir James Goldsmith for a general talk tomorrow afternoon. The purpose is to glean some ideas for your Aspen speech. You might ask him to put something down on paper by early next week.

I have put in the folder a copy of his own speech to the Institute of Directors.

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EUROPE: WHY AND HOW

James Goldsmith

Only yesterday, the Soviet Union controlled a world empire stretching from Vladivostok to Berlin with colonies in Asia, Africa and Latin America. Her secular religion was a global power.

Only yesterday, the U.S.A. maintained armed forces in Japan, Korea and the Philippines; could look down to Latin America as one looks out onto one's own backyard; was the protector of Western Europe; the bountiful financier to the world; and the holder of a quasi-monopoly on modern technology, from the nuclear weapon to the transistor radio.

Today the Soviet Union is disaggregating and the U.S.A. has shed her imperial role, abandoned her economic dominance and is turning inwards. At one and the same time, we are losing both our great enemy and our great friend. Locked in struggle, competition, they have remained locked in decline.

What is more, America has chosen a different path. As "Time", that very American magazine, recently wrote, and I quote, "by 2020, a date no further into the future than John F. Kennedy's election is in the past, the number of U.S. residents who are Hispanic or non-white will have more than doubled to nearly 115 million". Only a short time later, the population of European descent will be a minority. To quote "Time" again, "the 'average' U.S. resident, as defined by Census statistics, will trace his or her descent to Africa, Asia, the Hispanic world, the Pacific Islands, Arabia - almost anywhere but white Europe..."

A New York State task force on education suggested, I quote: "African Americans, Asian Americans, Puerto Rican and native Americans (i.e. Indians) have all been victims of an intellectual and educational oppression... Children should be taught how native Americans (i.e. Indians) were here to welcome new settlers from Holland, Senegal, England, Indonesia, France, the Congo, Italy, China, Iberia". End of quote.

Perhaps, as in the past, this will be a source of great new vitality for America and we must wish her well. But, as Europeans, we must be aware that America is detaching herself from her European moorings as she evolves into a cosmopolitan universe.

So now we are on our own. Our destiny is in our own hands and we must rely on no-one other than ourselves.

Only a short time ago, the mood that prevailed in Europe was known as Europessimism. Europe had lost her role. We had been reduced to being a sort of buffer zone between the two superpowers. Politically and economically, we were confused. We were tempted by both our perception of socialism in the East and by capitalism in the West. Culturally, we were being swamped by pictures, words, music and the general mores of America. As for our security, we had become dependent on the U.S. nuclear umbrella. Indeed, a frequent question in America was why should 250 million Americans protect 410 million prosperous Europeans from 290 million Soviets. Our pessimism affected our creative capacity as we dropped into a poor third place in productive Research and Development.

Europe was perceived as a once great civilisation now in decline, as so many others had been before us. The standard joke abroad was that Europe's role was to be a theme park, a sort of Euro-Disney ancient land, for tourists from nations with modern economies.

Now we have an opportunity to change all that.

We must start by deciding what kind of Europe we want. Slogans such as "We want a strong European parliament" or "We want a European central bank and a European currency" are meaningless, unless we

determine what sort of parliament, to do what; what sort of currency, to achieve what; and so on.

Europe consists of nations and tribes with deep and strong roots. For too long it has been fashionable to believe that tribal identities are superficialities of the past which, in the modern world, will be dissolved by universal education.

Contemporary history proves this to be wrong. Bureaucratic diktats have failed to stifle tribal differences. That is true throughout the world and here, in Europe, we see the struggles between Hungarians and Romanians in Transylvania; Armenians and Azeris in the Caucasus; Serbs and Albanians in Kosovo; Flemings and Walloons in Belgium; Anglo Saxons and Celts in Ireland; Basques in Spain, Corsicans in France and so on. Americans need only look to the North where Canada's federation is in danger of dissolving under the strain of tribal confrontation.

To deny such obvious, albeit unfashionable, truths leads to tragic and enduring consequences. Artificial frontiers are created which painfully have to be torn down because some things, ultimately, are decided by the will of the people, not by tyrants or bureaucrats. Also, ill-conceived immigration policies are established which, if pushed too far, inevitably lead to social torment. Europe must recognise and never forget, her heritage of diversity and build a structure which accommodates that diversity and draws strength from it. Europe should not be confused with America. America is a nation of immigrants and ipso facto, the bulk of her people freely have chosen deracination.

At this stage, Europe needs to be supple. It must be able to accommodate a fast evolving and uncertain situation. The partially considered structure designed for the present community of 12 nations will not suffice. The architecture of European institutions must take into account:

- Firstly, the reunification of Germany creating the dominant economic European nation.

- secondly, the six nations of the European Free Trade Association: Finland, Austria, Norway, Sweden, Iceland and Switzerland. They should be invited to join the greater Europe.
- thirdly, the Soviet colonies of Eastern Europe. If Soviet decolonisation is completed, Soviet troops withdrawn, and if their people adopt democracy and free markets, they should be welcomed.
- and, finally, the as yet unknown grouping of nations which could emerge from the Soviet Union. Under whatever leadership, the Soviet Union might remain a quasi totalitarian empire and a nuclear superpower based on a hostile ideology, communist or otherwise. If so, Europe must be strong and able to defend herself. No European nation can be allowed yet again to dominate the others either by colonisation or by intimidation. Another possibility is that the Soviet Union might evolve into a peaceful grouping of relatively free states. If so, Europe with due precautions could welcome her as an associate. Personally, I believe this scenario unlikely as I think that the disaggregation of the Soviet Union is an inevitable precursor to eliminating communism and avoiding some alternative form of dictatorship.

So, the Soviet Empire might unbundle, liberating its internal colonies. Thereby would emerge a number of newly independent countries, including the nation of Russia with 150 million Russians. Some of these nations might adopt the European ethic of liberty and then they too should be welcomed as full members of the new greater Europe, after they have installed, durably, the institutional and legal infrastructure that consolidates freedom.

The European imperative has long been recognised. In 1946, Churchill said: "If Europe were once united in the sharing of its common inheritance, there would be no limit to the happiness, to the prosperity and glory..." He talked of the "European family" and providing it with, I quote: "a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe."

De Gaulle was equally clear. I quote: "How can we accept that most of the nations of our Europe should be divided between two opposing blocs

and be subjected to political, economic and military instructions emanating from abroad". To his cabinet, he said: "Europe cannot be built without Warsaw, without Budapest and without Moscow".

From the Atlantic to the Pacific, from Lisbon to Vladivostok, Europe has 800 million inhabitants from which to draw and accounts for 47% of the world's GNP. It is possible that the people of Eastern Europe have been enduringly traumatised by forty-five years of socialist imprisonment. Perhaps, on the contrary, they have been inoculated against the diseases of tyranny and, after a period of pain and rebirth, will fight passionately for a truly free Europe. Perhaps, they are a source of renewed vigour.

So what sort of Europe do we want?

Let me start by suggesting the Europe we should reject. We do not want a European superstate, which is centralised, monolithic, dirigiste and seeks to impose uniformity. We do not want an all powerful super parliament nor a super bureaucracy, an extra layer of Euro-laws which compete with national laws, nor a new superlayer of taxation.

That is why there must be two guiding principles for the institutions of Europe; subsidiarity and an unbreakable system of checks and balances to control the central institutions.

Subsidiarity is the word now used to define the single most important element of a European constitution. It is the concept whereby the powers which are delegated to the centre are exclusively those which the individual nations, on their own, cannot exercise satisfactorily. Subsidiarity recognises that surplus centralised power is deeply destructive.

The principal responsibilities of Europe's Institutions should be:

- The guarantee of human rights.
- Security, defence and diplomacy.
- Protection of the environment which, of course, transcends man-made frontiers and is the dominant challenge that faces us.

- Free and fair trade and competition.
- Economic co-ordination.

The European Parliament should approve all European regulations and standards but these powers should be constitutionally limited because bodies that are established to legislate have an inbuilt dynamic to do just that, whether useful or not.

A new European Executive Cabinet would replace the present European Commission, which is not publicly accountable. Parliament would exercise control over the Cabinet by appointing its President, by approving its budget and by retaining the right to dismiss it. Members of the Cabinet would be nominated by the President and by the Government of the member nations so that the Cabinet would consist of members representing both the European Institutions and the individual member nations.

As in most democracies, there is a need for another more detached and venerable institution. Let's call it a Constitutional Senate. Its role would be to ensure that the Assembly, the Cabinet, the member nations and other institutions respect the Constitution.

This is the vital element of a durable system of checks and balances. The founding fathers of that great democracy, the United States of America, consciously learnt from our mistakes when framing their Constitution in Philadelphia. Their wisdom was an example to the world. Let us, in turn, learn from their subsequent experience.

James Buchanan, the American Nobel Prize winner considers that America, which originally was conceived as a true federation of free peoples, has evolved into a form of Nation-State not much different from other centralised States. As he says, James Madison could never have believed that his concept of federalism would degenerate into a centralised leviathan. This means that effectively Madison's concept of subsidiarity has been smothered by the central authority. Also the separation of the powers, the very fundament of a Jeffersonian democracy, has been severely impaired by the swelling of Congressional power and the consequent reduction of Executive authority.

Our Constitutional Senate will have to be ever vigilant to protect our European Constitution. Its members should be granted great stability. They should rise above partisan politics and therefore should enjoy extended mandates. Whereas members of Parliament should be elected by direct universal suffrage, members of the Constitutional Senate should be elected by the members of the Judiciaries and Senates of the member nations.

The European Institutions will have three principal economic responsibilities: the European currency, competition and the Common Agricultural Policy.

Let me start with the currency. The debate is about whether there should be a single European currency which immediately or progressively replaces national currencies. Or whether, national currencies should be maintained in addition to a European currency. This is anything but an arid technical argument. It will affect enduringly the future nature of Europe.

A single European currency means that all existing national currencies would be exchanged into and replaced by the European currency. But the value of a currency is a reflection of underlying economic circumstance. And as we know, Europe consists of different nations with different economies. There is a considerable difference between the economies of Germany and Greece or Portugal and the Netherlands. So how do we adjust for the fact that the economy of Greece is less productive and disciplined than that of Germany? If Greece and Germany were allowed to maintain their own currencies, then, when necessary, the Greek Drachma could be devalued relative to the German Deutsche Mark giving Greek industry a competitive advantage and encouraging a move to equilibrium between wealth creation and wealth consumption.

But if there is no such adjusting mechanism, then the economies of all European nations would have to be brought under the control of a central European bureaucracy. National budgets would be replaced by a European budget and matters of legitimate national concern would fall under centralised control. Subsidiarity would be shattered. A super state, with a super bureaucracy, super laws and super taxes would inevitably follow.

What is more, as the self adjusting mechanisms, among them devaluation, are blocked, a further system of bureaucratically controlled regional transfers would develop so as to attempt to equalise the standards of living of those who run their economies well and those who do not.

Member nations must maintain their own currencies which should be convertible into the European currency, the ECU, and each currency would be part of a European Rate Mechanism. The ECU would be controlled by an independent Bank of Europe and its value would be backed by the economies of all the European nations. The Bank of Europe would guarantee convertibility of the national currencies into the ECU, at the agreed parities, thereby ensuring the exchange rates of each nation's currency and maintaining stability. But this guarantee could be withdrawn if a nation were to fail to conduct its economy in a responsible manner.

This is an urgent task. Should the dollar need help in fulfilling its role as a world reserve currency, there would be no ready solution other than gold. Neither the Yen nor the Deutsche Mark are currently appropriate. A properly constituted ECU could serve.

The European Institutions are also responsible for maintaining competition and free and fair trade which are the backbone of a free economy. No-one should be spared this discipline. Neither trade unions nor corporations should be able to act in restraint of trade. Both lust for special protection and monopoly powers and both inevitably abuse them.

This is also true of governments. We have heard about "tax harmonisation". What do these two, apparently harmless, words mean? They signify the desire of certain governments not to have to compete.

If a Government taxes its citizens, directly and indirectly, more than another and fails to supply extra services commensurate with the extra taxation, then that Government will become uncompetitive. It will lose skilled people and capital for investment, as both will move to nations with better administration. "Harmonising tax" means creating a tax cartel among governments - an agreement, some would say a conspiracy, not to compete. Tax harmonisation will allow national governments to align

themselves on the least efficient whereas competition forces them to align on the most efficient.

My third economic comment concerns the Common Agricultural Policy. Most people would agree that the present systems of the CAP need to be constantly improved. But there is a deeper controversy.

When a nation mechanises its agriculture, this results in larger farms, with greater productivity, employing fewer people to produce larger quantities of food. Some nations, such as the U.K., undertook this process many years ago and as a result, Britain's agricultural population has declined from approximately 75% of the working population prior to the start of industrialisation to 2½% currently. Thus her interests are not typical of those of Europe as a whole.

But if such a displacement of population can be accommodated and is desired by the nation, then let it be. By accommodate, I mean supplying employment, housing, schooling, healthcare and a clean environment to the urban population. By desire of the nation, I mean agreement, after proper consideration, to altering the social balance of the nation. However, if the displaced families cannot be accommodated in the towns, then the position is quite different. Even the accounting has to change. Two dimensional accounting will indicate that mechanised food is cheaper because more food is provided for a lower price. But three dimensional accounting will tell a different story. To the direct cost of producing food must be added the indirect economic cost of maintaining the unemployed. Additionally must be taken into account the social cost of deracinating communities and creating an urban underclass.

Insofar as defence is concerned, we need a European defence system, under European command, to which the U.K. and France would contribute part or all of their nuclear forces.

Our relationship with the U.S.A. should be co-operative and constructive but we should be independent. We could acquire from the U.S. some part of its military infrastructure in Europe, when, in due course, its troops are repatriated. NATO, which has served us well in a different era, should then become the body through which the European and North

American defence organisations, each independent and sometimes with different priorities, could co-ordinate their action.

Finally, our immigration policy. Let me quote the Nobel prize laureate, Maurice Allais: "... Europe is already overpopulated. Therefore, it is imperative to stop immigration completely ..."

I would add that not only are we overpopulated, but also we have a multiracial and unproven community. To add large quantities of immigrants of different cultures would produce an explosive mix.

There is a free movement of peoples in Europe, so the whole of Europe is affected by the immigration policies of each nation. Immigration must be determined by the European constitution and, inter alia, the real meaning of the surviving arrangements between all former colonial powers and their ex-colonies must be re-assessed unflinchingly.

Theoretically Britain has a number of choices:

- She can attempt to convert Europe into a free trade area, gutted of its political content,
- or she can campaign to build Europe as a political reality founded on democracy, subsidiarity, free enterprise and self-reliance,
- or she can accept a centralised European supranational state,
- or she can remain aloof, as an independent trading nation with access to Europe through some form of association.

But most of that is theory. The European dynamic is strong. Our diversity is great but so is our common heritage and our common need.

And we must look around us. For most of this century, the world was divided into two blocks: communist and anti-communist.

This forced people with little in common other than anti-communism to join together in unnatural alliances. But as the old division dissolves, new

blocks with different interests will emerge. Life will become more complicated as multilateral problems replace the previous tidy structure.

America is withdrawing into a North American Common Market including Canada and Mexico and representing 29 per cent of the world's GNP.

In Asia, Japan is creating her co-prosperity area. As her economic power has grown to eminence, so she is assuming a political role and rebuilding her military strength. Only the naive can believe that she would accept isolation.

The Chinese are also moving. In China, power is drifting from the centre to the provinces. In due course, some sort of Chinese Federation could emerge consisting of the great Chinese provinces along with Taiwan and Hongkong. Its power in Asia will be underpinned by the large and prosperous Chinese communities in diaspora. This new grouping will represent about one-quarter of the world's population.

Principally, in the Middle East, North Africa and perhaps Pakistan, Islam is renascent. Her creed is great, powerful and different, and we must hope that she finds a place that she considers satisfactory within a stable world. Her peoples are numerous, as are our own. They are our neighbours to the South. During the development of Islam and Europe, it would be an awesome mistake for both if they were to compromise their heritage by substantially co-mingling their peoples.

What is more, something else of fundamental importance is happening. For a long time, over half the world's population has been in economic hibernation. Now the peoples of the Indian sub-continent, Latin America, Eastern Europe and China are beginning to stir and are attempting to join the global economy. This will result in major political, environmental and economic consequences.

All this change will occur under volatile circumstances. Declining empires are dangerous. The Crimean War occurred as the Ottoman Empire was in terminal decadence and the death spasms of the Austro-Hungarian Empire are considered to be a cause of World War I.

There are moments when suddenly stability is shattered, everything changes and a new order is created. That is when those with vision and courage can grasp the opportunities and make history.