

The President

The Right Hon. Roy Jenkins, President of
the Commission of the European Communities

OPENING STATEMENT ON THE SHORT TERM OUTLOOK
AND THE LONGER TERM OBJECTIVES OF ECONOMIC
AND MONETARY UNION

----- EUROPEAN COUNCIL : 5/6 December 1977 -----

Since our last review, we have made some progress on the inflationary front. The worst countries have got better. The middle range countries have remained about the same, with a shade of improvement. And the best has remained as good as it was. The overall B/Ps of the Community has improved, not quite as fast as we hoped, but nevertheless significantly, thanks mainly to a big change in the U.K. and Italy. There has been greater internal exchange rate stability. But our growth rates, both in the stronger and the weaker economies, unlike those of the other two main trading blocs, are well short of the targets agreed upon at the Downing Street Summit in May, and there is no sign of any early spurt.

There has been no improvement in unemployment. It has got marginally worse. It is common, with little more than marginal differences, to all our Member States, much more so than inflation or B/Ps problems or even low growth. It is illustrated by emergency action which we have to take, and which are reported to you in our sectoral paper for one after another of our major industries, textiles, steel, shipbuilding. And in each case we have to proceed by restructuring and the shedding of some labour in order to safeguard the future for the remainder. In one of our papers, we have identified the most promising growth industries : aeronautics, telecommunications, electronics, data processing, energy and energy saving. Some, perhaps particularly the last, could take on significant amounts of labour, but in general they are manifestly capital and not labour intensive.

I therefore do not believe that any conventional upswing is going to solve our unemployment problem. It would require 5½-6% growth rates throughout the Community over a 3 to 5 year period to recreate previous levels for the existing labour force. Within the existing framework does anyone regard this likely? 4½% would be optimistic. 3% might be more realistic..

There is an additional factor. Demographic projections based on those who might be born are notoriously unreliable. Projections based on those already born are of an altogether different order. They show that between now and 1985 many more people will become 16 than will become 15. After that it will change. But in the next eight years the potential labour force will increase by nine million against a population increase of six million. In conditions of full employment this would be a strength. In conditions of unemployment it is an additional problem. We need to employ still more in relation to the per capita demand. It will be more acute in Germany, the U.K., and Denmark, and most of all in Germany, where the population is likely to decline by 1½ million and the labour force to increase by 2½ million.

Therefore in my view there is no conventional way out. If we are going to change unemployment trends decisively, we need a major new stimulus of a historic dimension, comparable with the onset of the railway age 130 years ago or the post-war impact of the combination of the need for reconstruction and the spread in the '50s and 60s of what were previously middle class standards of consumption.

To some extent, but by no means wholly, such impulses cannot be continued. Yet those round this table are capable of making a decision contributive. Otherwise we will all contribute to presiding over what in the context of history may be a period of tactical victories but of strategic defeat.

Beyond this there are two additional factors :

(1) Enlargement. Assumption of this must clearly also be our working hypothesis. Are we prepared to allow it to lead to a weakening and loosening of the Community, or are we not ? Left to itself it will. A heavier body, particularly with the problems the new countries will bring - although they can be exaggerated - without a stronger bone and sinew structure will be more torpid, more flaccid, less coherent. But it need not be so. It could, to the contrary, give us the spur to move forward in the way that in any event we need to do. And if we do not, the enlargement would be self-defeating. The new members have made it clear that they want the sustenance of a strong and coherent Community. They do not want to find that in the process of joining they have damaged the potential which attracts them.

(2) We have not got a world monetary system. We had one for 25 years after Bretton Woods, and on the whole it worked very well. But it was based on a complete dollar hegemony. It began to crack in 1968. It fissured in 1971. Since then it has just staggered on. And today the dollar looks less satisfactory than ever as the only real international medium of exchange that we have. Its continuous weakness can be a great de-stabiliser. We are almost certainly the only group in the world capable of providing not a complete substitute but an alternative.

I see no medium term way forward except by giving a new, non-utopian but more urgent and contemporary impulse to the old idea of economic and monetary union, particularly its monetary aspect.

The benefits both to our stronger and weaker economies could be immense, certainly amounting to an impulse comparable with that which came from the establishment of the Customs Union itself.

The balance between benefits for both stronger and weaker economies is in my view essential. We will never, and understandably never, get major steps forward that are in the interest of only one or the other. But this need not be so. The strong have an immense amount to gain from the strengthening and underpinning of the unity of the market, that is its monetary and political stability.

For the weaker economies there are also immense, albeit different, advantages: above all protection from the gusts of exchange rate inflation and other upsets, including those arising from balance of payments difficulties, which come from being tossed about as frail small craft on an irrational world monetary sea. As part of the process there must also be greater transfers of resources. Clearly this would need to be within a clear framework of purpose and not just as charitable handouts. Moreover there would have to be the clearer and more permanent acceptance of common monetary and anti-inflationary disciplines.

But it is all Members of the Community, strong and weak and those in between, which would stand to benefit from a renewal of that more broadly based and robust economic expansion which only an economic and monetary union would permit. It is worth reflecting on how the United States is at present able to sustain its expansion in spite of certain major economic weaknesses. Not all of us are strong all the time, nor always weak. Those at present in between have shown great economic dynamism in the past decade but now seem hamstrung by the interaction of factors making for external and internal monetary instability.

The moment is propitious for the acceptance of much stronger common disciplines, providing these balancing factors were there. No-one can contemplate the course of the past few years in some of our member countries and believe that there is salvation in monetary indiscipline, in letting the exchange rate and the money supply go and accepting the inflationary consequences. You get the inflation, your currency sinks, but you are not compensated by greater growth or reduced unemployment. It is only return to discipline which produces an improvement and the beginning of the establishment of a platform for sustained growth.

As a former British Minister, I can refer to the striking example of my own country's recent experiences.

I believe there are two essential further points in the analysis.

(i) We will not get monetary union either by just

/ proclaiming it

proclaiming it and believing that separate currencies can be told not to diverge, nor by an inevitability of gradualism in which everything happens painlessly, effortlessly, without any major act of political will.

(ii) Second, it is not the case that an equality of performance is a pre-requisite for EMU. Common policy, common disciplines. Yes, obviously yes. But not the same standards of living, levels of output in Hamburg and Palermo, or in the future Copenhagen and Lisbon. Monetary unions have worked to the benefits of both richer and poorer areas with at least equal discrepancies in the past. They do indeed work within our Member States today where the natural discrepancies are very great, although greatly evened up by fiscal transfers. This distinction is vital. If equality of performance were necessary, it would be meaningless to talk about EMU for our lifetime or even / our children's lifetime.

In this situation we need to look afresh at what monetary union would involve for the Community. I should emphasise at the outset that I do not foresee such a union as something for tomorrow, or even the day after tomorrow. But if we are to set ourselves an objective, it should be one within practical reach, something not over the horizon but at least on the horizon. After all, in the long run we are all dead. What I envisage in the short run is the setting of an objective and the reorientation of our existing policies in terms of it. Thus when we take, as we must, decisions on major economic and monetary issues, we should do so within the framework of policies which will eventually lead to monetary union. This is less than making for union in a straight line; but it is more than the coordination which is sometimes held up as sufficient for our current needs.

What now has monetary union to offer ? It would obviously imply a lot in terms of European political integration, but I doubt if any among you would be willing to take a step of this size unless you were convinced that there was a clear, functional and economic need for it. Europe will not accept

it purely for ideological reasons. I believe that if you look at the nature of the proposition in this light, as I endeavoured to do in some detail in a speech recently in Florence, deploying seven separate arguments, that the economic case is vastly stronger than it is commonly supposed to be.

Today I do not ask those of you who are still perhaps a little sceptical to accept this argument to the point of a major new, immediate commitment. But I do ask you to give the idea of a renewed Community initiative in this area a 'fair wind'. To do this in a way that is reasonably prudent at this early stage, yet useful in itself, and also sufficient to carry credibility and to reawaken interest outside the Community institutions, I ask you to do three things :

First, agree to a number of practical initiatives, and encourage others that are in train. Here I have in mind the new Community Loan instrument, the renovation of the Regional Fund, and measures to improve economic policy coordination, our payments support mechanisms, to alleviate structural problems in certain industries, and youth unemployment. Only the new Community Loan instrument needs to be discussed in any substance at this stage in our proceedings (on this I would like Francis Ortolini to say a word at a convenient moment);

Second, encourage the Commission to elaborate in more detail what, in today's very different circumstances as compared to the beginning of this decade, would be the conditions and merits of an accelerated move to economic and monetary union. Here I have in mind two kinds of work : on the one hand, analysis of why and how the union would change so significantly for the better our prospects for employment, and stable monetary conditions; on the other hand, what should be the design of the bones and sinews of the union. Here we need to look for a model for the Community's monetary, financial and institutional organisation which should almost certainly be something sui generis, corresponding to no preconceived

prototype.

In considering what its shape and powers might be, I think we have to go for something small in size and limited in the scope of its responsibilities. The federal organisation of the United States, with its massive powers in the field of social security, is not only no analogy, but almost the opposite of what I have in mind. I would envisage a decentralised form of monetary union in which the public procurement of goods and services is primarily in national, regional or other hands. The public finance function would be limited to a few important kinds of financial transfer, designed to fulfil specific tasks in sectors of particular concern to the Community, and assuring the flow of resources necessary to sustain monetary union. For these purposes only a small central bureaucracy would be required. I doubt if any of the Member States would wish otherwise.

Third, agree now to a new procedure for rolling^a five-year programme, subject to annual review and control, and so provide the formal framework in which we can put together the individual practical steps of progress and relate them to the broader perspective as and when this takes firmer shape.

In conclusion, I believe the European Council should deliberate in such a way as to reawaken interest outside the Community institutions in this project - in political, academic, business and trade union circles. The issues at stake are so great and difficult that we can only benefit from a period of renewed debate and analysis across the whole of the Community. I believe the fundamental proposition is robust enough to derive increased rigour and support from such a process. Economic and monetary union will in any case have to come to be seen as a compelling necessity by a wide range of public opinion before it can happen. But without the will to make it happen and to direct our intermediate policies, we would be without a lodestar in an increasingly discouraging world.