

18.VII.77

STATEMENT BY THE PRESIDENT OF THE COUNCIL

Mr Gaston GEENS, Minister for Finance of Belgium and President-in-Office of the Council, made a statement at the start of the Council meeting on the work programme for the Council on Economic Affairs and Finance which the Belgian Presidency has set itself for the current half year.

The text of the statement is attached to this release.

The President's suggestions will be examined in accordance with the usual procedures. The Council in particular asked the Monetary Committee, the Committee of the Governors of the Central Banks and the Permanent Representatives Committee to examine the suggestions made regarding credit mechanisms and to report back to it for its October meeting.

SECOND QUARTERLY EXAMINATION OF THE ECONOMIC SITUATION IN THE
COMMUNITY

The Council examined the economic situation in the Community on the basis of a Commission communication on economic policy to be followed in 1977 and the preparation of public budgets in 1978.

At the end of its examination the Council signified its agreement on the guidelines, for the Community as a whole and for each individual Member State, relating to the preparation of public budgets for 1978. These guidelines will form the subject of a Council Decision which will be formally adopted at the earliest opportunity after legal and linguistic finalization.

FOLLOW-UP TO THE LONDON MEETING OF THE EUROPEAN COUNCIL ON
29 AND 30 JUNE 1977

The Council instructed the Monetary Committee and the Economic Policy Committee to carry out a technical examination of the Commission communication on investment and borrowing in the Community. It asked the Permanent Representatives Committee to report back to it on the communication in the light of the opinions of those two committees in time for its October meeting.

STATEMENT BY THE PRESIDENT

At the beginning of this, the first Council meeting on Economics and Finance over which I have the honour to preside, I would like to put before you the objectives, plan of action and work programme for the second half of the year.

I. OBJECTIVES

I think we are all in agreement on the most important objective. We must reduce in practical terms the differences in economic and monetary conditions between the Member States and at the same time reduce the structural differences between our economies.

In my view this is the aim both of our Governments and of the two sides of industry and the Commission, as was clearly shown by the recent tripartite meeting so effectively chaired by our colleague Denis HEALEY.

In addition we must make progress at European level with fiscal harmonization and with the combatting of tax evasion.

Moreover we must ensure that Europe can act as one, speaking with a single voice in international economic and monetary debates. This must apply inter alia at the September meeting of the Interim Committee and at the annual meeting of the International Monetary Fund.

II. PLAN OF ACTION

1. Reduction of the differences in economic and monetary conditions

This means that priority must be given to our efforts with regard to the policy that must be followed, firstly to reduce unemployment and inflation and secondly to smooth out the differences between the Member States.

We therefore feel that Europe must be active in two fields: first co-ordination in monetary and budgetary policy must be improved and second such improvement must be accompanied by adjustment of the credit mechanisms. The credits available must be expanded. They should also be made subject to more stringent terms. This proposal must be regarded as a continuation of part of the DUISENBERG Plan.

To achieve an improvement in co-ordination in monetary and budgetary policy it is necessary for States to decide on compatible objectives in consultation with one another.

With that in mind we would like all Community States to define the ultimate objectives of their monetary and budgetary policies and in particular to state which target - internal or external balance - takes precedence in the event of a conflict between the two. Consultations should be held at Community level on the objectives defined in this manner and agreement arrived at on them.

There must be consultation at Community level on the choice of the means used by each country to achieve these objectives (e.g. interest rates) and the implications of that choice for the achievement of the other EEC countries' objectives.

Finally - and this is very important - the intermediate targets (money supply, credit, etc.) chosen or to be chosen by the monetary authorities in each country of the Community must be co-ordinated. To be effective these monetary policy targets must be accompanied by precise and compatible budgetary targets.

The acceptance of a coherent, jointly oriented monetary and budgetary policy should lead both to a reduction in the inflation rate differences between EEC Member States and to greater equilibrium in the balances of payments on current and capital account and in this way contribute to greater stability in currency market developments.

To the extent that the improvement of economic and monetary co-ordination is accepted it must be accompanied by adjustment of credit mechanisms within the Community.

In particular we think that the short-term monetary support quotas should be expanded. However such increases in quotas should only be available if the applicant has accepted and observes the above-mentioned intermediate monetary targets and the budgetary targets.

As you are aware, short-term support can benefit all EEC countries and not just the snake countries. The short-term quotas however also determine the amount of credit which may be granted under the terms of the snake after the initial period which may vary between 1 and 2 months. The increase in the short-term quotas would thus also mean a strengthening of the European currency snake. Even though limited to five States, the snake is still an important factor in promotion of the convergence of the economies of the States participating in it.

As an expression of the will to reduce the differences between the snake countries and the other Community Members we proposed that the Member of the Commission responsible for economic and financial questions should attend meetings of the Ministers and Governors of the snake. This is in accordance with the proposal made by the Prime Minister, Mr TINDEMANS, in his report.

Medium-term financial co-operation, for which the amounts were laid down six years ago, should be adjusted, if for no other reason than that a large part of the medium-term credit has already been used up. Although we suggest an increase in medium-term credit, we also propose that it be paid out in instalments, subject to the observance of precise terms laid down for each instalment.

2. Reduction of structural differences

To remedy the lack of structural balance in the social field, the various existing Funds - the Regional Fund, the Social Fund, the EAGGF Guidance Section, the EIB - must be better co-ordinated with one another. The operations of the various Funds and the EIB should gradually come to be regarded as components of a joint structural policy. This policy must encourage at European level the development of key industries with a strong technological bias. In addition efforts must be made to reorganize declining industries and to implement a new international economic order.

Furthermore, the EIB's volume of operations must be increased to finance investment in the least developed parts of the Community and to help projects contributing to economic recovery in areas of industrial decline. The Bank should also give more support to investment in the energy sector. The Commission's proposals concerning investment and loans should be examined thoroughly and without delay in a constructive spirit.

3. Fiscal harmonization

A true common market requires that the Member States form a single economic area with all the characteristics of a domestic market. Tax frontiers must therefore be progressively dismantled.

In concrete terms this means that in particular as regards indirect taxes and corporation tax efforts must be made to harmonize the structures of such taxes.

One of our objectives in this context will be early approval of the draft Directive on the common system of taxation applicable to mergers between companies of different Member States, which has been before the Council for quite some time and whose purpose is to lay down common standards for exemption from corporation tax when mergers of companies take place.

The generalized application of the EEC own resources system, which will enter into force on 1 January 1978, marks an important step towards European integration. However, for the EEC to become financially independent on that date, it will be necessary to adopt a financial regulation laying down the method of calculation of the EEC's own revenue from VAT. An early decision is imperative but, in view of the fact that accounting requirements are already highly complex in most Member States, it must not increase the administrative burden on companies.

Our common fight against tax avoidance demands that first and foremost we approve two draft Directives: one concerning mutual assistance by the Member States in the field of direct taxation, and the other concerning mutual assistance in the collection of VAT and excise duties.

However, we are forced to record that, as with other moral values, the civic conscience of taxpayers has weakened appreciably during the last decade. Official reports issued in several Member States have already revealed a high incidence of tax avoidance.

Such avoidance is a threat to the equilibrium of the Member States' public finances. It distorts competition and upsets the economic and social order, both at national and at international level. Tax avoidance thereby constitutes a major obstacle to economic and monetary union.

We must therefore endeavour to work out the right tax collection system in our countries and utilize public finances in a proper manner. The Commission for its part, will have to do the same for the Community budget.

To secure better co-ordination of our efforts to combat tax evasion I would propose that the Council on fiscal affairs devote some of its discussions to this problem before the end of the year. The Commission could draft a report in preparation for these discussions. This report could be drafted in collaboration with senior fiscal experts from the Member States.

4. Single voice

Experience has already often shown that where the Member States of the Community reached agreement among themselves on major economic and monetary problems and gave evidence of such agreement, this made a very effective contribution towards the achievement of positive solutions on a wider international level. Europe must therefore try to speak with a single voice at the various international meetings dealing with all kinds of economic and international problems. It should do so in particular at the meeting of the IMF Interim Committee in September.

III. - WORK PROGRAMME

Finally, I should like to put before you a work programme aimed at making significant progress in the various areas to which I have just referred.

I would suggest that at our meeting on 19 September we prepare for the meetings of the International Monetary Fund which start in Washington on 24 September.

The Monetary Committee will prepare our meeting when it meets on 9 September.

I would also suggest that, at our meeting in October, we discuss the adaptation of short-term and medium-term credit mechanisms which I have proposed and the Commission proposals concerning investment and borrowing. This examination will have to be prepared by various committees. I would also point out that short-term credit comes within the competence of the Governors of the Central Banks and that the Committee of the Governors will therefore inform us of the results of its work on this subject.

In November we shall devote a third examination to the economic situation and also complete the report on progress towards Economic and Monetary Union, as requested by the European Council in March this year.

Towards the end of the year, we shall also have to devote a meeting to the fiscal problems to which I referred earlier.

This, Gentlemen, is the programme I wished to put before you at the start of this new presidency. I admit that it is ambitious. But when the Ministers meet, it must be to take decisions to enable the Community to make progress. However, the programme I am putting before you is also realistic and pragmatic.

I therefore hope that we shall be able to achieve significant progress together.
