European Community NEWS

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I am delighted to be in Washington and particularly honoured to be the guest of the National Press Club.

Since the present Commission of the European Communities took up its mandate, and I its Presidency, at the beginning of 1977, there has been a close and continuing dialogue with the United States Administration. Relations between previous United States Administrations and earlier European Commissions have been regular and good, but perhaps there has been something special about them since the coincidence of President Carter coming into his office and I more modestly into mine at almost exactly the same time two years ago.

We had the privilege of a visit to Brussels from Vice-President Mondale a few days later. I made my first official visit to Washington in April 1977, and, in addition to our meetings at the Western Economic Summits of London and Bonn, President Carter visited the European Commission in Brussels in January this year, the first American President to do so. We agreed then that we should keep up a continuing dialogue and form a regular pattern of meetings. This explains my present visit to Washington. I would like to express publicly

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my appreciation for the particularly warm and friendly way in which President Carter has received me.

We are now half way between the Western Economic Summit of Bonn which took place in July this year, and that which is generally expected to be held in Tokyo in June next year. In my talks with members of the United States Administration I have therefore been able to conduct a sort of mid-term review of general developments in our economies, how these compare with our expectations in Bonn, and what are the prospects for Tokyo. Although it is too early to say exactly how and whether the various specific commitments into which the Summit participants entered will be met, I think that the results so far are not at all bad. At least the trends are right in every participating country - although not necessarily the same for some of the problems are different. Too much should not be expected of Summits, but one of the valuable things about them is that, at least temporarily, they concentrate the minds of the participants on a recognition of common problems, and on the need for the major industrial countries of the world to support each other in dealing with them.

In the last few years we in the European Community have put on a relatively poor economic performance in comparison with our major industrial partners in the United States and Japan. For a Community dedicated to economic integration and enjoying rich and diversified economies this may seem strange. It is indeed one of the curiosities of the Treaty of Rome that it

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catered for freer movement of goods, services, people and capital but set no objectives in the monetary field. Yet in the long run a common market without a common money system would make little sense. In the stable monetary conditions of the 50s and early 60s, perhaps this gap among our objectives was not of crucial importance. But when the cracks appeared in the Bretton Woods system and inflation began to accelerate, the Member States of the Community realised with greater clarity than before that the European union towards which they were striving could scarcely exist without a common monetary system. It was Raymond Barre, then Vice-President of the European Commission and now Prime Minister of France, who produced the first scheme for a European economic and monetary union.

It is perhaps worth asking how you would like to run your economy if you had a common tariff barrier round the United States, a common agricultural policy, even a common energy policy, but some exchange controls on every frontier between every American state, and state currencies, some strong, some weak, which constantly fluctuated against each other. Europe of the Community is not the same as America of the United States, and our evolution is following its own particular course. But it is no coincidence that those who are dedicated to the construction of Europe are dedicated also to the construction of an economic and monetary union.

In spite of an immense effort and acceptance of a commitment to economic and monetary union, the work set in train by Raymond Barre and carried forward by Pierre Werner, Prime Minister of

Luxembourg, had disappointingly meagre results. The combined shocks of the collapse of the Bretton Woods system in 1971, the energy crisis of 1973 and their aftermath of monetary confusion made it very difficult for the European governments concerned to give effect to the undertakings into which they had entered. Indeed when I tried to re-launch the idea in a speech at Florence just over a year ago I was told that I was trying to resuscitate a very dead duck. I am glad to say that the duck turned out to be no more than asleep. Indeed, to pursue the analogy, it is beginning to spread its wings and will fly from the first of January next year.

How and why has this remarkable change taken place? First I think that we in Europe have become better aware of the evil effects which the movement of European currencies against each other has had on our ability to run our economies as we wish and continue the upward trend which only countries of broad geographical spread have managed in difficult circumstances to achieve. Community countries with strong currencies have found themselves hurt by lack of demand in countries with weak currencies, and weak currency countries have been unable to achieve the growth they so badly need through the risk of running exchange rate crises. Never has the need for the convergence of our European economies and the reduction - and evening out - of inflation rates among us been more apparent.

Second there has been the decline in the value of the US dollar, the continuing pivot of the international monetary system, systematically until 1971, unsystematically since then, which has obliged Europeans to take in more dollars than they want or need, and thus lose control of an essential element of economic

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management: their own money supply. The idea of creating a zone of monetary stability in Europe has therefore become a common objective about which there has been no dispute among any of us.

In the last nine months we have come a long way. I pay tribute to the inspiration, energy, and determination of Chancellor Schmidt of Germany and President Giscard d'Estaing of France who have provided the essential motor of the work which led to the agreement to create a European Monetary System at the beginning of last week. What we then did could well turn out to be the most important event in the building of Community Europe since the early days of the Treaty of Rome. It merits more than a careful examination; and if you will forgive me for being a little technical, I think it would be right for me to say a word or two about it now.

The essential features of the European Monetary System are first the creation of a system of fixed but adjustable exchange rates between member currencies; second the creation of a European Currency Unit or ECU, a basket of Community currencies, which will be used as an indicator of divergence between them; third the creation of a Community reserve asset, beginning with the deposit by Member States of 20 per cent of their gold and dollar reserves in exchange for credits denominated in ECUs; and last the provision of credit facilities of around 25 billion ECUs (or at the present rate of exchange 33 billion dollars).

I want to emphasise that Member States of the Community unanimously agreed to set up the European Monetary System on

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1 January 1979. It is perhaps surprising when governments stick to the deadlines they set themselves, but this time the deadlines were fully respected. Yet as you know our success was not unqualified. To my own regret the British Government while supporting the system felt unable to participate in the exchange rate mechanism and the arrangements made for intervention. The governments of Italy and Ireland wanted more time to consider their position, and so were not able to commit themselves on the spot. Since then we have all heard of the courageous decision of the Italian Government to join the system, and now today that the Irish Government will do likewise. I warmly welcome this. Perhaps the essential point for the Community and the Commission over which I preside is that the system we have created is a Community system which will take its place alongside the other institutions of the Community and will be designed to serve the interests of all. The fact that it is such a system and includes in some form all members of the Community, even the one which has chosen not to participate in the exchange rate mechanism, should make it easier for it to join in all aspects of its work later on.

It has sometimes been suggested that the European Monetary System is in fact little more than an enlarged version of the exchange rate arrangement commonly known as the snake. The snake, which is in some ways an historic remnant of previous attempts to bring European currencies together, is in fact a very different animal. In the mechanisms of the snake there

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was no basket to indicate divergence between the currencies. There was no acceptance of the presumption of action by governments or central banks when the threshhold of divergence was approached. The credits available were less than half those of the new system. No serious account was taken of the need for economic convergence. There was no accompanying provision for transfer of resources (which in the case of the European Monetary System will amount to 5 billion ECUs (or 6½ billion dollars) in interest reduced loans to be taken up over five years). There was no real political commitment. Finally - most important of all - it was not a Community system and in its later years essentially a deutschmark zone.

I shall be very ready to answer any questions you may have about the European Monetary System. I hope in particular you will give me the opportunity to say more about its place among our wider objectives. It is true to the best traditions of the European Community, established since the early post-war activity of Jean Monnet, an economic weapon, valid in itself, but also serving a wider political aim, that of underpinning and developing our unity, so that we may be more effective partners with you in discharging our world responsibilities.

There have been some apprehensions in the United States about the effect of the system on the international monetary system and the US dollar which continues as its essential pivot. I believe that those fears have been exaggerated, and I was delighted to find during my visit here that they were not shared by members of the Administration. Indeed I was greatly heartened by the welcome which the Administration has given to the creation of the European Monetary System, a welcome which President Carter repeated to me yesterday. The European Monetary System is designed not only to establish a zone of monetary stability in Europe but also to contribute to greater stability in the world monetary system as a whole. If it is true that one of the external factors which weighed in the creation of the system was the decline in the value of the dollar earlier this year, it is equally true that we have a vital interest in a stable dollar if the system is to be properly born and well-nurtured in its infancy. To try to set the system in place at a time of international monetary storm and confusion would make our task much more difficult. Some people have suggested that the creation of the ECU and the eventual establishment of a European monetary fund could precipately and dangerously weaken the role of the dollar as a medium of international exchange. Let me therefore emphasise that although we shall be creating a new reserve unit in the ECU, its use will be limited to transactions between the central banks of the Community. It cannot therefore be a threat to the dollar the strength of which is as much in our interest as yours, the stability of which is made even more necessary to us by this immediate, major and delicate task we are now undertaking.

There are many other aspects of the life of the Community about which I could have spoken today. There is the now imminent prospect of its enlargement to include Greece, and then Portugal and Spain, and the need to strengthen its central institutions

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to carry the additional weight. There is also the prospect of the first direct elections to the European Parliament next June. But you have heard enough from me today on what is, I think the central most important event in our development. Throughout its history the Community has always moved forward unevenly. It is no easy task to bring together the nations of Europe with their differences of history, traditions, civilization and national outlook. But I believe that the friends and well-wishers whom we have in the United States should take heart from what we have achieved. Pray continue to encourage us with your understanding and your co-operation.