

SPEECH BY MR CHRISTOPHER TUGENDHAT, VICE-PRESIDENT  
OF THE COMMISSION OF THE EUROPEAN COMMUNITIES TO  
THE INSTITUT FÜR KAPITALMARKTFORSCHUNG AND THE  
INSTITUT FÜR ÖFFENTLICHE WIRTSCHAFT, GELD UND  
WÄHRUNG, FRANKFURT 1730 HOURS, JANUARY 18 1983

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TOWARDS A MORE UNIFIED INTERNAL MARKET AND BEYOND

I SHOULD LIKE TO BEGIN BY THANKING THE  
INSTITUT FÜR KAPITALMARKTFORSCHUNG AND THE  
INSTITUT FÜR ÖFFENTLICHE WIRTSCHAFT, GELD UND  
WÄHRUNG FOR THEIR KIND INVITATION TO ME TO SPEAK  
IN FRANKFURT. ANYONE ENGAGED IN THE CONSTRUCTION  
OF EUROPE AS I AM MUST FEEL INSPIRED BY THIS  
CITY. IT WAS IN FRANKFURT THAT CRUCIAL STEPS  
WERE TAKEN IN THE LAST CENTURY IN THE DEVELOPMENT  
OF MODERN GERMAN DEMOCRACY. IT WAS HERE TOO THAT  
MUCH IMPORTANT PIONEERING WORK WAS DONE IN  
INTER-STATE COOPERATION IN A GERMAN CONTEXT THAT  
COULD NOW HELP TO POINT THE WAY TOWARDS A MORE  
UNIFIED EUROPE IN OUR OWN DAY.

MY TITLE "TOWARDS A MORE UNIFIED  
INTERNAL MARKET AND BEYOND" IS ALSO INSPIRED BY  
THE EXAMPLE OF GERMAN HISTORY WHICH SHOWS

/HOW USEFUL

HOW USEFUL THE ROLE OF A COMMON INTERNAL MARKET CAN BE IN PROMOTING POLITICAL CO OPERATION AND EVENTUALLY EVEN FORMS OF POLITICAL UNION. AS THE FIRST PRESIDENT OF THE EUROPEAN COMMISSION, DR. WALTER HALSTEIN USED TO SAY "OUR MEANS ARE ECONOMIC BUT OUR AIMS ARE POLITICAL". THAT IS THE SPIRIT WHICH INSPIRES ME WHEN I PUT TO YOU VARIOUS IDEAS FOR DEVELOPING THE INTERNAL MARKET IN BOTH GOODS AND SERVICES AND FOR MOVING BEYOND IT IN COOPERATION WITH PRIVATE BANKERS AND OTHERS INTO ACTIVITIES NOT DIRECTLY COVERED BY THE TREATY.

I SHOULD ALSO HAVE LIKED TO HAVE BEEN ABLE TO SAY SOMETHING ABOUT THE COMMISSION'S PLAN FOR DEVELOPING THE COMMUNITY'S SYSTEM OF OWN RESOURCES. I CANNOT DO SO HOWEVER BECAUSE WE ARE AT THIS MOMENT IN THE PROCESS OF PREPARING A CONSULTATIVE DOCUMENT ON THE SUBJECT. IT WOULD BE WRONG FOR ME TO TRY TO PRE-EMPT THE COMMISSION'S DECISIONS AND THESE SHOULD IN ANY CASE FIRST BE MADE AVAILABLE TO THE TWO ARMS OF THE BUDGETARY AUTHORITY - THE EUROPEAN

PARLIAMENT AND THE

PARLIAMENT AND THE COUNCIL OF MINISTERS. I WOULD ONLY LIKE TO SAY THAT I WELCOME THE OPEN APPROACH FOR DEALING WITH THIS ISSUE PROMISED BY THE INCOMING GERMAN PRESIDENCY IN MR HANS DIETRICH GENSCHER'S SPEECH TO THE EUROPEAN PARLIAMENT ON JANUARY 11TH WHILE EXPRESSING THE VIEW THAT THE COMMUNITY SHOULD MAKE FASTER PROGRESS THAN HE SEEMED TO IMPLY.

### THE INTERNAL MARKET IN GOODS

THE COMMUNITY'S INTERNAL MARKET IS USUALLY THOUGHT OF SIMPLY IN TERMS OF TRADE IN GOODS. THE COMMON MARKET UPON WHICH THE COMMUNITY IS BASED IS NEVERTHELESS FOUNDED NOT ONLY ON FREE MOVEMENT OF GOODS, BUT ON THREE FURTHER FREEDOMS; FREE MOVEMENT OF PERSONS, SERVICES AND CAPITAL.

EVEN IN THE AREA OF FREE MOVEMENT OF GOODS A PERFECT UNITY OF THE COMMUNITY INTERNAL MARKET IS SOME WAY OFF. WE ARE STILL FAR FROM ATTAINING THE OBJECTIVE OF ENSURING CONDITIONS AKIN TO THOSE PREVAILING ON A DOMESTIC MARKET - BINNENMARKTÄHNLICHE VERHÄLTNISSE.

/IT IS MY BELIEF

IT IS MY BELIEF THAT FURTHER PROGRESS IN RELATION TO FREE MOVEMENT OF GOODS IS LIKELY TO BE SLOW IN COMING UNLESS IT IS MATCHED BY LIBERALISATION IN RELATION TO THE PROVISION OF ATTENDANT SERVICES.

I WANT TO SPEAK TO YOU PRINCIPALLY ABOUT SERVICES SINCE THEY ARE ONE OF MY RESPONSIBILITIES IN THE COMMISSION BUT BEFORE TURNING TO THAT TOPIC I WOULD LIKE TO MENTION BRIEFLY TWO OTHER BROAD CATEGORIES OF OBSTACLE TO FREE TRADE IN GOODS AND THE ACTION THE COMMUNITY IS TAKING TO DEAL WITH THEM.

ALL WESTERN ECONOMIES ARE NOW BEING SUBJECTED TO PROTECTIONIST PRESSURES. SO FAR AS THE INTERNAL MARKET IS CONCERNED, HOWEVER, THE COMMISSION IS PARTICULARLY CONCERNED BY THE TENDENCY OF MEMBER STATES TO ERECT NEW TECHNICAL BARRIERS AGAINST EACH OTHER. I KNOW THAT THE FEDERAL REPUBLIC IS MORE SINNED AGAINST THAN SINNING IN THIS AREA SO YOU WILL BE PLEASED TO HEAR THAT THE COMMISSION IS TRYING TO STREAMLINE THE PROCEDURES FOR DEALING WITH THIS KIND OF BREACH OF THE TREATY. AT THE SAME TIME IT

/WOULD BE HELPFUL

WOULD BE HELPFUL TO REMIND MEMBER STATES THAT THE EUROPEAN COURT'S JUDGMENT IN THE CASSIS DE DIJON CASE DECIDED THAT THERE IS NO VALID REASON WHY GOODS LAWFULLY PRODUCED AND MARKETED IN ONE MEMBER STATE SHOULD NOT BE INTRODUCED INTO ANY OTHER MEMBER STATE. THAT DOCTRINE NEEDS TO BE FOLLOWED UP VIGOROUSLY.

THE IDEAL APPROACH, IN FACT, WOULD BE TO RENDER NEW NON-TARIFF BARRIERS INEFFECTIVE BY ENSURING THAT THEY CAN BE BYPASSED EITHER ON A BASIS DERIVING FROM CASSIS DE DIJON, OR ON THE BASIS OF MORE AUTOMATIC COMMUNITY PROCEDURES WHICH WOULD OBTIATE NATIONAL CHECKS.

THE COMMISSION

THE COMMISSION IS IN ANY CASE SEEKING WAYS OF SIMPLIFYING FORMALITIES AT FRONTIERS BETWEEN MEMBER STATES AND I AM ENCOURAGED BY THE INITIAL RESPONSE TO OUR IDEAS BOTH OF THE HEADS OF STATE AND GOVERNMENT AND THE EUROPEAN PARLIAMENT. I HOPE PROGRESS FROM NOW ON WILL BE MORE RAPID THAN BEFORE.

EUROPEAN UNDERTAKINGS MUST BE ASSURED THAT THEIR ACTIVITIES WILL BE ABLE TO DEVELOP IN AN ECONOMIC UNIT SIMILAR IN SIZE TO THE AMERICAN MARKET AND DISTINCTLY BIGGER THAN THE JAPANESE MARKET. A SUFFICIENTLY LARGE TECHNOLOGICAL DEVELOPMENT, FINANCING AND SALES BASE IS ESSENTIAL IF THE COMMUNITY

/AS A WHOLE

AS A WHOLE IS TO RECOVER ITS COMPETITIVITY ON  
WORLD MARKETS AND IN SO DOING START TO BRING DOWN  
THE PRESENT TERRIBLE LEVEL OF UNEMPLOYMENT. AS  
MATTERS STAND, THE INABILITY TO TAKE DECISIONS ON  
THESE PROPOSALS STANDS IN STARK CONTRAST TO THE  
PROLIFERATION OF NATIONAL MEASURES ADOPTED BY  
MEMBER STATES, THE SECONDARY ECONOMIC EFFECTS OF  
WHICH THREATEN TO SPLIT UP THE INTERNAL MARKET,  
AND IN THE LONG RUN TO INCREASE UNEMPLOYMENT.

/THE INTERNAL MARKET

## THE INTERNAL MARKET IN SERVICES

SUCH CONSIDERATIONS APPLY NOT ONLY TO MANUFACTURING, BUT EQUALLY TO SERVICES. WE ARE ENTERING AN ERA IN WHICH THE PRODUCTION AND EXCHANGE OF SERVICES WILL BE AND INDEED ALREADY IS OF CONSIDERABLE IMPORTANCE. BUT PARADOXICALLY SOME OF THOSE MEMBER STATES WHO ARE MOST STRONGLY IN FAVOUR OF MAINTAINING AND DEVELOPING THE COMMON MARKET IN GOODS ARE AMONG THE MOST RETICENT WHEN IT COMES TO SERVICES.

SPEAKING HERE TODAY IN THE CITY WHICH WAS THE CRADLE OF GERMAN BANKING AND IS NOW ONE OF THE WORLD'S LEADING FINANCIAL CENTRES, I PAY YOU NO REAL COMPLIMENT IN SAYING THAT I BELIEVE THE FEDERAL REPUBLIC HAS A MAJOR ROLE TO PLAY IN OPENING UP THESE SECTORS. UNFORTUNATELY UNTIL NOW IT HAS BEEN ONE OF THE MOST RESERVED, NOTABLY AS REGARDS THE FREEDOM TO PROVIDE SERVICES ACROSS FRONTIERS IN INSURANCE.

THIS IS DESPITE THE FACT THAT ARTICLE 59 OF THE TREATY OF ROME STATES THAT "RESTRICTIONS ON FREEDOM TO PROVIDE SERVICES WITHIN THE COMMUNITY SHALL PROGRESSIVELY BE ABOLISHED".

/ANY POSSIBLE



POSSIBLE DOUBTS ABOUT THIS ARTICLE WERE DISPELLED BY THE LANDMARK DECISION OF THE EUROPEAN COURT OF DECEMBER 1974 IN THE VAN BINSBERGEN CASE, HOLDING THAT THIS ARTICLE 59 HAD DIRECT EFFECT AND COULD THEREFORE BE RELIED ON BEFORE NATIONAL COURTS, IRRESPECTIVE OF THE EXISTENCE OF IMPLEMENTING DIRECTIVES, AT LEAST WHERE DISCRIMINATION ON GROUNDS OF NATIONALITY WAS CONCERNED.

BUT IT IS ONE THING TO HAVE A BASIC FREEDOM OR RIGHT AND ANOTHER TO EXERCISE IT EFFECTIVELY IN THE DAY TO DAY WORLD, GOVERNED AS IT IS BY A TANGLE OF NATIONAL RULES AND REGULATIONS. THE EXISTENCE OF THE BASIC FREEDOMS DOES NOT MEAN THAT AN INSURANCE UNDERTAKING IN ONE MEMBER STATE CAN OPERATE IN ANOTHER MEMBER STATE WITH COMPLETE DISREGARD FOR THAT STATE'S LAWS. IN THIS SITUATION THE COMMISSION HAS THE VERY CLEAR DUTY TO BRING ABOUT A BASIC CO-ORDINATION OF THE CONTROL MEASURES APPLYING TO INSURANCE UNDERTAKINGS IN THE VARIOUS MEMBER STATES, SINCE ONLY IN THIS WAY CAN THE BASIC FREEDOMS ENSHRINED IN THE TREATY BE GIVEN THEIR FULL EFFECT.

/AT THE LEVEL

AT THE LEVEL OF THE COUNCIL, THE WORK ON THE RELEVANT DIRECTIVE HAS BECOME BOGGED DOWN. A NUMBER OF ISSUES ARE BEING DISCUSSED, BUT THE CENTRAL OBSERVATION I HAVE TO MAKE IS THAT A NUMBER OF MEMBER STATES ARE ATTEMPTING TO USE THE DIRECTIVE TO WEAKEN THE BASIC FREEDOM ENSHRINED IN THE TREATY ITSELF AND CONFIRMED BY THE COURT. THE GERMAN PRESIDENCY HAS SAID THAT IT WISHES TO ACCELERATE WORK ON THE MEASURES TO IMPROVE THE FUNCTIONING OF THE INTERNAL MARKET. I HOPE THAT IT WILL DO SO IN THIS AREA AS WELL AS OTHERS.

IN BANKING

IN BANKING PROGRESS HAS PROVED LESS DIFFICULT THAN IN INSURANCE. IT IS NOT MY PURPOSE TO DESCRIBE FOR YOU THE SITUATION IN INTERNATIONAL BANKING GENERALLY. YOU KNOW FAR MORE ABOUT IT THAN I DO. HOWEVER, IT IS RELEVANT TO TAKE THE CURRENT DIFFICULTIES AS A STARTING POINT WHICH SHOULD COMPEL US IN EUROPE TO MOVE MORE RAPIDLY TOWARDS A TIGHTLY KNIT COORDINATION OF BANKING SUPERVISION, SO AS TO ENSURE THAT INCREASING ECONOMIC AND MONETARY INTEGRATION IN THE COMMUNITY DOES NOT GIVE RISE TO ANY AVOIDABLE RISKS OF FUTURE BANKING CRISES. FOR THIS PURPOSE WE SHALL NEED GOOD STANDARDS OF SUPERVISION AND OF BASIC BANKING RULES. THIS OF ITSELF CAN MAKE AN IMPORTANT CONTRIBUTION TO THE STABILITY OF THE BANKING SYSTEM WORLDWIDE.

OUR EFFORTS IN THE BANKING FIELD ACHIEVED THEIR FIRST REAL BREAKTHROUGH WITH THE FIRST BANKING COORDINATION DIRECTIVE APPROVED BY THE COUNCIL IN DECEMBER 1977.

THIS FIRST

THIS FIRST DIRECTIVE SET UP AN ADVISORY COMMITTEE. THAT MAY NOT SOUND VERY MUCH, CONSIDERING THE NUMBER OF ADVISORY COMMITTEES WHICH EXIST ON VARIOUS SUBJECTS, BUT THE BANKING ADVISORY COMMITTEE WAS SELECTED AT A HIGH LEVEL, AND HAS PLAYED A VERY IMPORTANT ROLE OVER THE LAST FEW YEARS IN CARRYING FORWARD THE PRINCIPLES LAID DOWN IN THE DIRECTIVE FIRST UNDER THE PRESIDENCY OF PROFESSOR KÖHLER OF THE DEUTSCHE BUNDESBANK TO WHOM IT GIVES ME GREAT PLEASURE TO PAY TRIBUTE TONIGHT AND NOW WITH MR HUIB MULLER OF THE NEDERLANDSCHE BANK IN THE CHAIR.

OUR RECENT PROPOSAL FOR A DIRECTIVE ON SUPERVISION ON A CONSOLIDATED BASIS OWES MUCH TO THE WORK OF THE COMMITTEE, AND , AFTER A FAVOURABLE OPINION FROM THE EUROPEAN PARLIAMENT LAST MONTH, IS NOW BEFORE THE COUNCIL OF MINISTERS. IT IS A RELATIVELY SIMPLE PROPOSAL, WHICH WOULD OBLIGE THE SUPERVISORY AUTHORITIES IN EACH INDIVIDUAL MEMBER STATE TO EXERCISE REGULAR SUPERVISION ON A CONSOLIDATED BASIS OVER THE ACTIVITIES OF THEIR INSTITUTIONS, SUBSIDIARIES AND BRANCHES

/IN OTHER MEMBER STATES.

IN OTHER MEMBER STATES. IT IS, I BELIEVE, VERY RELEVANT IN PRESENT CIRCUMSTANCES.

THIS IS A FIRST STEP TOWARDS CONTROL BY THE HOME STATE, BUT IT WOULD GO NO FURTHER THAN REQUIRING THE HOME STATE AUTHORITIES TO EXERCISE CURRENT BANKING SUPERVISION OF SUBSIDIARIES AND BRANCHES IN OTHER MEMBER STATES. WE CANNOT TAKE THE MORE DECISIVE STEP OF PUTTING AN END TO PRUDENTIAL SUPERVISION OF BRANCHES AND SUBSIDIARIES BY THE HOST COUNTRY UNTIL A FAR-REACHING COORDINATION OF SOLVENCY AND LIQUIDITY RATIOS HAS BEEN REALISED.

THE ADVISORY COMMITTEE HAS ALSO BEEN VERY ACTIVE IN THIS FIELD.

ALONGSIDE THE ACTIVITIES OF THE ADVISORY COMMITTEE, THE COMMISSION HAS PRESENTED A DRAFT DIRECTIVE ON THE ANNUAL ACCOUNTS OF CREDIT INSTITUTIONS. THIS FOLLOWS ON

/FROM THE FOURTH

FROM THE FOURTH ACCOUNTS DIRECTIVE, WHICH WAS ADOPTED IN 1978. THIS DRAFT IS CURRENTLY BEFORE PARLIAMENT, BUT IT LOOKS AS IF IT WILL BE SOME TIME BEFORE THE COUNCIL CAN BEGIN TO CONSIDER IT.

ONE OF THE INTERESTING PROBLEMS WHICH ARISES IN CONNECTION WITH THE ANNUAL ACCOUNTS OF BANKS IS WHETHER FINANCIAL INSTITUTIONS SHOULD BE ALLOWED TO TRADE AGAINST UNDISCLOSED RESERVES; ON THIS CONTROVERSIAL ISSUE THE COMMISSION HAS TAKEN A MIDDLE-OF-THE-ROAD POSITION PROPOSING THAT CREDIT INSTITUTIONS SHOULD BE ALLOWED TO MAINTAIN UNDISCLOSED RESERVES AMOUNTING TO A MAXIMUM OF 5 PER CENT OF LOANS AND ADVANCES TO ENABLE THEM TO AVOID DRAMATIC FLUCTUATIONS IN THE PUBLISHED RESULTS.

LET ME NOW TURN BRIEFLY TO OUR FUTURE PLANS. WE ARE WORKING ON A NUMBER OF DIFFERENT POINTS.

THE FIRST

THE FIRST IS THE CONTINUATION OF WORK ON RATIOS, WHERE WE ARE CURRENTLY CARRYING OUT TRIAL RUNS. THE NEXT STEP WILL BE TO WIDEN THE NUMBER OF CREDIT INSTITUTIONS TAKING PART, AS THE OBJECTIVE IS GRADUALLY TO BRING IN SPECIFIC GROUPS OF CREDIT INSTITUTIONS NOT INCLUDED THE FIRST TIME ROUND.

A FUNDAMENTAL PROBLEM IN THIS CONTEXT IS THE PRECISE DEFINITION OF "OWN FUNDS". THE CONCLUSION TAKING SHAPE SEEMS TO BE THAT THE SAME DEFINITION OF OWN FUNDS CANNOT BE USED FOR THE VARIOUS PURPOSES OF REQUIREMENTS FOR ESTABLISHMENT, MINIMUM OWN FUNDS, AND THE OWN FUNDS FIGURE USED IN REGULAR BANKING SUPERVISION.

THE SECOND POINT

THE SECOND POINT IS THE CONTINUATION OF WORK ON THE COORDINATION, AND PERHAPS HARMONISATION, OF LICENSING PROCEDURES. THIS WOULD MAKE IT EASIER TO SET UP BRANCHES IN OTHER MEMBER STATES; IT IS A JOB WE FEEL WILL HAVE TO BE DONE BY A SECOND COORDINATION DIRECTIVE.

THE THIRD POINT IS THE DIFFICULT QUESTION OF COMMON RULES ON THE WINDING UP OF CREDIT INSTITUTIONS. WORK IS GOING ON AT THE MOMENT IN THE COMMUNITY'S GENERAL COMPANY LAW FRAMEWORK ON A GENERAL CONVENTION ON WINDING UP AND SIMILAR PROCEEDINGS. BUT AS CREDIT INSTITUTIONS FOR OBVIOUS REASONS HAVE SPECIAL PROBLEMS - A GOOD EXAMPLE BEING THE QUESTION OF HOW DEPOSITS ARE TO BE HANDLED - WE FEEL THAT CREDIT INSTITUTIONS SHOULD NOT BE COVERED BY THE GENERAL CONVENTION BEFORE SPECIFIC RULES HAVE BEEN LAID DOWN FOR THEM. WE SHALL THEREFORE NEED A SPECIAL DIRECTIVE ON THE WINDING UP OF CREDIT

/INSTITUTIONS WHICH MAY



INSTITUTIONS, WHICH MAY ALSO COMPRISE ELEMENTS OF A DEPOSIT GUARANTEE SCHEME. FOR OTHER ASPECTS OF WINDING UP, CREDIT INSTITUTIONS WOULD BE COVERED BY THE GENERAL CONVENTION.

THE FOURTH POINT CONCERNS THE REGULAR RETURNS TO BANKING SUPERVISORY AUTHORITIES. REQUIREMENTS VARY GREATLY FROM ONE MEMBER STATE TO ANOTHER. THIS IS VERY INCONVENIENT FOR THOSE CREDIT INSTITUTIONS WHICH HAVE BRANCHES IN OTHER MEMBER STATES, AND IT WILL BECOME EVEN MORE INCONVENIENT AS CONSOLIDATED SUPERVISION BECOMES MORE WIDESPREAD. A BRANCH IN ANOTHER MEMBER STATE MUST MAKE REGULAR RETURNS TO THE SUPERVISORY AUTHORITY IN THE HOME COUNTRY.

/THE FIFTH POINT

THE FIFTH POINT CONCERNS HOUSING FINANCE. OUR INTEREST IS NOT - IT NEVER IS - MOTIVATED BY ANY DESIRE TO HARMONISE FOR HARMONISATION'S SAKE. BUT WE HAVE COME TO REALISE THAT THE WIDE RANGE OF CHOICE WHICH IS THE ESSENCE OF THE COMMON MARKET SHOULD BE AVAILABLE IN HOUSING FINANCE TOO. THE PRESENT SITUATION WHEREBY THERE ARE SEVERE OBSTACLES TO BOTH ESTABLISHMENT AND PROVISION OF SERVICES IN THE AREA OF HOUSING FINANCE IS NOT ACCEPTABLE.

THE SIXTH AND SEVENTH POINTS COVERED BY OUR WORK PROGRAMME ARE RESPECTIVELY CONSOLIDATED ACCOUNTS FOR BANKING GROUPS AND BRANCH ACCOUNTS. ON GROUP ACCOUNTS, I CAN ONLY SAY THAT WE ARE STILL ON THE STARTING LINE; WE ARE WAITING

/FOR THE COUNCIL

FOR THE COUNCIL TO ADOPT THE SO-CALLED SEVENTH COMPANY LAW DIRECTIVE WHICH COVERS ANNUAL ACCOUNTS OF GROUPS. THERE IS NO POINT IN GOING AHEAD ON THE SPECIFIC PROBLEMS OF BANKS BEFORE WE KNOW THE FINAL CONTENT OF THE GENERAL COMPANY DIRECTIVE.

AS TO THE BRANCH ACCOUNTS WE WOULD LIKE TO ABOLISH REQUIREMENTS FOR SEPARATE ACCOUNTS FOR COMMUNITY BANKS AND BANKS FROM THIRD COUNTRIES ADHERING TO THE SAME INFORMATION STANDARDS AS THE COMMUNITY. BRANCHES FROM OTHER COUNTRIES WILL HAVE TO GO ON PRESENTING SEPARATE BRANCH ACCOUNTS.

AS THIS WORK PROGRAMME SHOWS OUR AIM IS NOT HARMONISATION BUT COORDINATION. SOME DEGREE OF HARMONISATION WILL ALWAYS BE NEEDED. BUT WE SHALL TRY TO KEEP IT TO A MINIMUM. I WOULD ALSO LIKE TO EMPHASISE THAT WE DO NOT INTEND TO SET UP NEW SUPRA NATIONAL INSTITUTIONS IN THE COMMUNITY BUT RATHER TO WORK WITH AND THROUGH THE EXISTING NATIONAL INSTITUTIONS.

THE EUROPEAN MONETARY SYSTEM

## THE EUROPEAN MONETARY SYSTEM (EMS)

I SHOULD NOW LIKE TO SAY A FEW WORDS ABOUT THE EUROPEAN MONETARY SYSTEM (EMS), ONE OF THE COMMUNITY'S MAJOR INNOVATIONS IN RECENT YEARS AND ONE THAT OWES MUCH TO THE COMMISSION.

ITS ACHIEVEMENT IN KEEPING EUROPE TOGETHER IN MONETARY MATTERS OVER THE LAST THREE YEARS ARE, IF YOU THINK OF IT IN PERSPECTIVE, QUITE REMARKABLE. IMAGINE NOW WITH HIND-SIGHT THE PROPOSITION OF LAUNCHING A MAJOR EUROPEAN MONETARY INITIATIVE INTO A PERIOD CHARACTERISED BY THREE OF THE MOST VIOLENT SHOCKS THE POST-WORLD WAR ECONOMY HAS EXPERIENCED:

(I) THE SECOND OIL SHOCK,

(II) VIOLENT CHANGES IN US MONETARY POLICY INCLUDING AN EXTREME SWING AT ONE TIME AGAINST INTERNATIONAL EXCHANGE RATE COOPERATION

(III) AND OF COURSE NOT UNRELATED, THE SEVEREST RECESSION SINCE THE 1930'S.

IN THIS TURBULENT

IN THIS TURBULENT PERIOD WE HAVE SEEN THE SURVIVAL OF OUR NEW INFANT - THE EMS - IN CIRCUMSTANCES ANALOGOUS TO THE TREATMENT ACCORDED TO BABIES IN ANCIENT SPARTA, WHERE THEY WERE LEFT ON THE MOUNTAIN TOP IN MID WINTER TO TEST THE SOUNDNESS OF THEIR HEALTH.

BEYOND SURVIVAL WE HAVE SEEN SEVERAL CONSTRUCTIVE DEVELOPMENTS.

THERE HAS BEEN AN INCREASING RECOGNITION OF THE NEED FOR FUNDAMENTAL CONVERGENCE OF ECONOMIC POLICY. SEVERAL EMS COUNTRIES HAVE FOR INSTANCE CHANGED THEIR POLICIES IN IMPORTANT WAYS IN THE LAST TWELVE MONTHS ON VITAL ISSUES OF PUBLIC FINANCE AND DEFICITS, AND ON PAY DEVELOPMENTS INCLUDING THE DELICATE ISSUE OF MODIFYING INDEXATION PRACTICES.

THERE HAS ALSO BEEN AN INCREASING DEVELOPMENT OF PRIVATE USES OF THE ECU, NOTABLY IN THE EUROBOND MARKET AND THE MARKET FOR BANK DEPOSITS IN ECU.

/HERE WE SEE

HERE WE SEE INTERESTING NEW INITIATIVES FROM THE PRIVATE SECTOR, INCLUDING THE POSSIBLE ESTABLISHMENT OF A MULTILATERAL CLEARING SYSTEM FOR THE ECU.

IN VIEW OF THESE DEVELOPMENTS I SUGGEST THAT THE GERMAN AUTHORITIES SHOULD REEXAMINE THEIR ATTITUDE TO THE ECU IN PRIVATE TRANSACTIONS. THIS IS NOT JUST IN THE COMMUNITY'S INTEREST, BUT IN GERMANY'S OWN INTEREST, WHICH WILL OTHERWISE BE CUT OFF FROM EMERGING MARKETS.

ACCEPTANCE OF

ACCEPTANCE OF THE ECU MIGHT ALSO HELP TO AVERT THE RISK OF THE DEUTSCHE MARK BECOMING A RESERVE CURRENCY

FINALLY THERE IS NOW A FIRM CONSENSUS OF VIEWS AMONG COMMUNITY GOVERNMENTS AND CENTRAL BANKS THAT THE BENIGN NEGLECT OF THE EXCHANGE RATE OF THE DOLLAR, AND THE IMPLAUSIBLE EXCHANGE RATE AT TIMES OF THE YEN, REPRESENT KEY ISSUES FOR EUROPEAN ECONOMIC DIPLOMACY. EUROPE'S INTERESTS ARE BEST SERVED IN OUR RELATIONS WITH THE US AND JAPAN BY PERSISTANCE, UNITY, AND TACTFUL PERSUASION - DEPLOYED IN SUPPORT OF THE ARGUMENT THAT THE WORLD'S MAJOR CURRENCY AREAS SHOULD NOT ALLOW THEIR EXCHANGE RATE RELATIONS TO SWING FREELY FROM ONE DRUNKEN EXTREME TO ANOTHER.

THE EMS IS

THE EMS IS A COMMON AND LEGITIMATE PLATFORM FROM WHICH WE CAN ADVOCATE OUR POINT OF VIEW. IT HAS ENABLED US TO MANAGE OUR INTERNAL COMMUNITY MONETARY AFFAIRS IN A REASONABLY WELL COORDINATED WAY AND ONE WHICH CERTAINLY COMPARES FAVOURABLY WITH SOME RECENT EVENTS CONCERNING CURRENCIES NOT INVOLVED IN OUR SYSTEM.

IN THIS CONTEXT I HAVE MUCH IN MIND THE FACT THAT THE UNITED KINGDOM IS STILL CONSPICUOUS BY ITS ABSENCE FROM FULL PARTICIPATION IN THE EMS. I RECALL THE UK'S OFFICIAL POSITION. THE UK INTENDS TO JOIN FULLY; IT IS A QUESTION OF WHEN, NOT IF. IN ASSESSING THE PERIOD OF THE UK'S NON-MEMBERSHIP I SHOULD LIKE TO MAKE THREE POINTS.

/FIRST THE



FIRST, THE SECOND OIL PRICE RISE MADE A SUBSTANTIAL INCREASE IN WHAT ECONOMISTS COULD CALL THE NET WORTH OF THE UNITED KINGDOM INC., AND THIS WARRANTED A REVALUATION OF THE EXCHANGE RATE WHICH TAKES TIME TO WORK THROUGH TO AN ACCEPTED EQUILIBRIUM LEVEL - RATHER AS A STOCK MARKET WOULD REVALUE THE SHARES OF COMPANIES DISCOVERING A NEW RESOURCE.

/SECONDLY, AND AT THE

SECONDLY, AND AT THE SAME TIME THE UK GOVERNMENT DECIDED TO CHANGE CAMP DRAMATICALLY FROM BEING MANAGER OF A HIGH INFLATION ECONOMY TO THE MANAGER OF A LOW INFLATION ECONOMY. THIS CHANGE HAS BEEN EFFECTED ENTIRELY THROUGH FINANCIAL POLICY - BUDGETARY AND MONETARY - WITH NO RECOURSE TO CONTROLS OVER PRICES AND INCOMES. ALTHOUGH THE RISE IN UNEMPLOYMENT HAS BEEN GRAVE, AND INDEED SOMEWHAT WORSE THAN THE EC AVERAGE, THE CHANGE IN RELATIVE PRICE STABILISATION PERFORMANCE HAS BEEN EXTREMELY IMPRESSIVE. A FEW FACTS MAY SPEAK FOR THEMSELVES. IN 1979 GERMANY'S INFLATION RATE WAS 4.1%, THE EC AVERAGE WAS 10.2% AND THE UK'S WAS SIGNIFICANTLY HIGHER AT 13.4%. FOR THE LAST TWELVE MONTHS GERMANY REMAINS AT THE LOW END WITH 4.9%; THE EC AVERAGE WAS 10.1% - CLOSE TO ITS 1979 LEVEL. THE UK FIGURE WAS 6.8%; CLOSER NOW TO THE GERMAN FIGURE THAN THE EC AVERAGE. THE POWERFUL

/USE OF DOMESTIC

USE OF DOMESTIC FINANCIAL POLICY, IN MAKING A LARGE STEP CHANGE IN AN ECONOMY'S MACROECONOMIC INFLATION PERFORMANCE, WILL NECESSARILY HAVE AN IMPACT ON THE EXCHANGE RATE. BUT IT TAKES TIME, HERE AGAIN, FOR MARKETS TO PERCEIVE THE NEW EQUILIBRIUM EXCHANGE RATE WARRANTED BY THE POLICY CHANGE.

RECENTLY HOWEVER THERE HAS ALSO BEEN A PROGRESSIVE CHANGE OF MONETARY POLICY IN THE UNITED KINGDOM IN THE SENSE OF REINTRODUCING THE EXCHANGE RATE AS A POSITIVE CRITERION OF MONETARY POLICY MANAGEMENT. THIS EVOLUTION OF POLICY HAS NOT, OF COURSE, GONE SO FAR AS JOINING THE EMS, BUT IT IS A POSITIVE STEP. THIS EVOLUTION HAS NO DOUBT IN PART BEEN THE RESULT OF THE LAST FEW YEARS' EXPERIENCES. WHILE EXCHANGE RATE CHANGES WERE INEVITABLE FOR THE POUND IN THE CIRCUMSTANCES, THE SIZE OF THESE CHANGES HAS BEEN OFTEN UNCOMFORTABLE FOR THE ECONOMY, TO SAY THE LEAST. FOR THE FUTURE A SMOOTHER EXCHANGE RATE COURSE IS DESIRABLE AND ACHIEVABLE.

/IN THESE CIRCUMSTANCES

IN THESE CIRCUMSTANCES AND WITH EUROPEAN EXCHANGE RATES AT THEIR PRESENT LEVELS I HOPE THE BRITISH GOVERNMENT WILL SHORTLY DECIDE THAT THE TIME IS NOW RIGHT TO JOIN THE EMS I AM SURE IT WOULD BE IN BRITAIN'S INTEREST TO DO SO AS WELL AS THAT OF THE SYSTEM AS A WHOLE. ONLY WITH FULL BRITISH PARTICIPATION CAN IT ACHIEVE ITS FULL POTENTIAL.

LADIES AND GENTLEMEN, I HAVE COVERED A WIDE CANVAS - WIDER PERHAPS THAN THOSE ENGAGED IN EITHER POLITICAL OR FINANCIAL AND COMMERCIAL AFFAIRS IN EARLIER CENTURIES WOULD HAVE DREAMT OF. BUT THE CONSTRUCTION OF CONTEMPORARY EUROPE IS A COMPLEX AND ARDUOUS PROCESS AS WELL AS AN EXHILARATING ADVENTURE. I HOPE I HAVE DONE SOMETHING TO CONVINCING YOU THAT WE ARE NOT FLAGGING IN THE TASK.