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INTER-ALPHA GROUP OF BANKS

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Tonight I am going to talk about a Europe at once ambitious and troubled. Nine countries are engaged in a revolutionary enterprise. They want to build Europe. Thirty years ago they were at war, today they try to unite.

So, let's not be astonished about the troubles : we are in a period of creation, every day proves that this creation is certainly a difficult one. The structures, the interests, the habits, confront each other every day. But let us not only see problems and obstacles, we also have to be aware of the progression, the move forward which certainly exists.

Maybe these first words astonish you a bit, for I am speaking, I know, in the name of a disconcerting Europe. It is necessary, that you, here in the United States, know that under the commotion a completely new reality is emerging, a reality which anybody in the world must take into account.

Europe is not only ...

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Europe is not only a dream, Europe has substance, its own responsibilities, its own field of action. The whole area of commercial and tariff policy is community policy. When the new discussions in GATT start, it is the Community, and not the Nine Member States which will be negotiating.

The agricultural policy, that is the whole organization of the trade and market as well as the agricultural price policy, is community policy. These are wellknown examples, but they show that Europe exists. What we see is only the top of the iceberg - but the submerged part is also considerable with the customs union and the competition policy. This submerged part is steadily extending for instance now up into the area of social policies.

Furthermore, you have to note that Europe is affirming what we could call its identity, its political personality. A regular, close and strong cooperation has been organized between the

member States in this field.

member States in this field. This cooperation leads us sometimes to speak with one voice, but more often to sing the same song even if there is from time to time an unfortunate false note. We can see now for instance, the establishment of a common policy towards the third world, a policy where important achievements have been made and initiatives are being taken.

On the whole in the political field we sometimes meet rebuffs but more often we progress.

Indeed we in Europe do not have any other choice. Today, for the European States, there is no worthy alternative to the union we are building among our economies, our nations and our peoples.

The affirmation of the European personality is today, in 1974, not a question of choice or of political intuition but a necessity. United by geography and civilisation,

Europe is also united

Europe is also united by common problems: poor in raw materials and energy, hard hit by the oil crisis, highly economically interdependent, Europe must face the economic and monetary troubles as a unity and find a coherent repartee to these menaces. In the same way, the very nature of our open economies, in which full employment and growth depend on the expansion of world trade, implies that Europe, in order to be efficient and to obtain its rightful share, starts united the vast and multiform international negotiations we are approaching and contribute united to the definition of a new lasting world monetary order and world trade stability.

This does not mean - quite the contrary - that the way of Europe, the only possible issue, will be easy to take and that it will be possible to advance along it easily and rapidly.

The difficulties stem first of all from tough and often crude discussions of interests which are necessarily

a part of the

a part of the voluntarily rational and progressive method which we are using for the construction of Europe.

In addition, and this is the second major difficulty, the varying degrees of sensitivity of our member countries to the economic difficulties connected with inflation and external deficits, as well as excessive disparities in their internal development, favor divergent views of the order of necessities and priorities for action.

These differences in views explain why it is so often hard for us to engage ourselves fast and freely in certain needed common actions. For example, in spite of all the efforts of the Commission over which I have the honor to preside, we are only about to define an energy policy on the European level while we here have a collective field of action which ought to be, and I still hope and believe it will be, the next important development in this European common basis I was mentioning before.

This priority for common action

This priority for common action in the field of energy must be seen in a larger context, that is, the context of organizing ourselves with strength to be able to give an answer to what I will call the great challenge: the economic and monetary challenge which will be the hardest and the most enduring one we will have known for the last forty years.

You must know that when I say this, the will to build Europe does not, in my eyes, veil the evident truth of which we all must take the consequences. This task is a task for you, for us, for the whole world with its total economic order in disarray and with its obvious interdependence. We have to solve these problems together, we have to avoid scattered action and avoid incompatible steps; we have to define the necessary, adequate, international solutions to such world problems.

One of the actions which Europe has to pursue is to organize itself in view of such cooperation and to create - notably with you - the means for a deep-going dialogue which

should be conducted

should be conducted "souple main" to be profitable to all.

These circumstances put the relations between Europe and the United States in their right perspectives; this relationship cannot be based on power arguments, quite the opposite - our relations are those of equal and free entities or nations. The problems are often different and the interests therefore sometimes divergent but we are engaged in the same fight to re-establish as fast as possible a stable economic and monetary international situation.

After going through a difficult period at the beginning of the year, relations between Europe and the United States seem now fortunately much happier. The ticklish question of trading compensation was settled last spring and a flexible and pragmatic solution was found to the problem of political consultations. I am convinced that this positive approach must make it possible to face a new period of our relations in a climate of rediscovered harmony. It will thus be possible to give our relations, which, I repeat, continue

to be of paramount importance

to be of paramount importance for the United States as well as for Europe, their full dimension. Not only in security matters, but also to be able to tackle in a concerted manner the new threats facing us all as a result of the energy crisis and the upheavals in the world economy. I feel strongly that in this field our cooperation is an absolute necessity.

And a meeting like the one today can be a useful contribution towards promoting new and stronger links, if only to give us the opportunity to let our American friends know what is on our minds and to give them a better idea of the imperative requirements and constraints which very largely determine and model the present Community strategy.

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In this strategy of the Community another question,

apart from the common policies

apart from the common policies which I mentioned in the beginning, is what is called the economic and monetary union, which plays a special role. The solemn decision fixing 1980 as the target year of the union was made five years ago. This union is an ambitious project. It foresees the creation of a large economic area without frontiers. A series of preliminary actions will be needed implying fixed and irrevocable parities between European currencies and will pave the way towards the creation of a complete monetary unity.

The first stage of this plan has failed. The last 18 months have not been at all encouraging: we have seen the gradual disruption of the system to narrow fluctuation margins laboriously instituted in 1971 and 1972. First the pound and the lira, then the French franc had to withdraw from Community disciplines, while the fluctuations of the dollar throughout 1973 seriously jeopardized the European monetary solidarity.

Generally speaking,

Generally speaking, not only did the Economic and Monetary Union - primarily founded on the alignment of currencies (despite the principle of parallel progress in the two fields) - lose ground in the last two years, but the idea itself lost force. Hard hit by inflation and international monetary disorder, the doctrine underlying actions taken since 1970 has been shattered and has not been replaced. The result at the level of Community action was a long period of pause also caused by political changes taking place in a number of member States.

On the initiative of the Commission in Brussels new action has started which is much more pragmatic and which I hope will show itself much more efficient.

First, the Nine members of the Community have decided to closely coordinate their economic policies and the different instruments which such economic policies necessitate that is, monetary, budgetary, etc. ...

The Council of Economic and

The Council of Economic and Financial Ministers is meeting regularly every month to be able to confront and coordinate the member policies, to make the necessary consultations in view of determining appropriate guidelines or directives for all member states. They also meet to assure compatibility between economic actions in the individual countries.

In the current phase the first objective of this policy is coordination and intensification of the fight against inflation which is the major economic threat for us all. This fight necessitates vigorous action on the national as well as international level and of course, from our point of view, especially but not only on the European level. Such action should strongly take into account social realities of the member countries and the necessary international economic balance.

We are fully aware of the need for immediate sacrifices in this area to prevent more serious situations. Little by little a stronger economic policy is being shaped. A policy

marked by a credit-frame,

marked by a credit-frame by more restrained budgets, by close price surveillance and also by the will to contain consumption or even reduce it, especially as far as oil products goes, a policy which should also be sustained by a general moderation and self restraint on the part of all actors of the economic game of social pressure groups. This common objective is for us a paramount one, socially, economically, politically and we will try to reach it together.

Secondly, we attach, of course, the greatest importance to the improvement of the international monetary situation, the gravity of which you should know better than anyone.

This leads us to active participation, with the greatest possible cohesion, in action which are taken on the international level to assure smooth functioning of the Eurodollar market and to solve the immense problem of capital recycling. The Community is helped in this task by two very active permanent groups, the Monetary Committee,

which is composed of

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which is composed of high level civil servants from the member countries finance Ministries and the Committee of Central Bank Governors.

Within the Community, we are trying to establish a community loan system which could at the same time contribute to the recycling of capital and permit the reinforcement of financial solidarity between our member States already established through a European fund for monetary cooperation.

The initiatives in this field are clearer since our last Council of Ministers meeting on the 16th of September. However, such loan operations made by the Community still raise a number of questions, for example who will bear the guarantee in the last resort.

However, I was glad to see that at its last meeting the Council of Ministers clearly manifested its will to take

Community action in this field.

Community action in this field. And, on the basis of work that we put in hand several months ago, my hope is that the European Community, like the International Monetary Fund has done internationally under the leadership of Mr. Witteveen, will contribute to these recycling operations which are indispensable to world financial equilibrium.

In the general context of a solution to the problems of balance of payments, assessment of the real value of the different assets of member States certainly constitutes a special problem. You already know the Community's position on the gold question, and you may have observed that in connection with the recent German loan to Italy, the reserves Italy was able to offer as guarantee were valued in respect of their gold asset at a price much closer to the market than to the official price. I think that it is necessary to continue along this path, so important for us Europeans, if we wish, through the gradual pooling of reserves, to develop European economic and monetary union.

Thirdly: with the aim to reinforce

Thirdly: with the aim to reinforce European monetary solidarity at the same time as we assure a better balance and a better stability in our system, we have, in spite of the crisis, kept what we now call the "small snake". It still unites the Deutsch Mark, the Belgian Franc, the Florin, the Danish Crown in a system where these currencies can only fluctuate within small margins vis-à-vis each other and float together vis-à-vis the rest of the free currencies.

We experience every day the usefulness of a mechanism, which by the imposition of monetary discipline, implies economic discipline with regard, of course, to credit, but also with regard to budgetary matters or taxation. Although in the present circumstances it is not possible to revert to the large European snake, the idea has still not been abandoned, and the institution of a concerted floating nine European currencies continues to be a basic condition of progress in the field of monetary unity. We are examining, in our Council of Ministers, what rapid improvements could be made in this field.

We have numerous other

We have numerous other problems and other projects. Maybe, as realists, you may consider it wishful thinking that despite recent experience I still talk about monetary solidarity and about European Economic and Monetary Union. However, I am convinced that we must proceed, otherwise we will lose ground and return to trade compartmentation or to monetary compartmentation, a situation of which we have in the past harvested the disastrous consequences.

Progress also presupposes efforts of the imagination which will have to be put into concrete action. Among these efforts a special place should be given to some progress towards a European currency. Again, it is probably ambitious to mention this idea, which to everyone seems to be the final stage of a union which has yet to be achieved. On the other hand, how can one deny the role of currency as a motor - both in the development of economic phenomena and in the consciousness of the agents taking part in these.

One of the tests of the transition from the Europe of

the experts to a Europe

the experts to a Europe of living forces will undoubtedly be the ability for an inhabitant of Paris, or a businessman in Rome, to pay his debt in Bonn, say, or collect a claim from Brussels denominated in a European monetary unit.

Here too the way has been cleared. The Community already has unities of account, for example for the common agricultural policy or for the accounting of the operations of loans among member countries.

These units, the major defect of which is that there are already too many of them, have the disadvantage of being expressed in gold at a time when the valuation of this metal does not make it easy to convert them into the various national currencies unless agreement is reached either by convention or regulation on the conversion rates to be adopted. This has been achieved by some banks - whose representatives I have the pleasure in greeting here - in connection with bond issues denominated in a "European unit of account".

Other banks have joined

Other banks have joined this project by using composite units based on a basket of currencies. This is the case with the B. unit or the Eurco, a currency in which the European Investment Bank issued a loan last year.

For the moment, the only functions of money used in these experiments is that of a unit of account, leaving aside in fact not only its function as a reserve asset but more especially as a medium of payment. However, sooner or later this Community loan which I have just mentioned, or any other operation of the same kind, could provide an opportunity for using a new monetary unit, which we could call the ECU. The Latin countries would quickly be familiar with this now old continental currency, while the Anglo-Saxons would be happy to see the English initials of the "European Common Unit" for the common European currency.

The primary function of this instrument would, in fact, be to make it possible to denominate in a satisfactory and stable unit the bonds to be issued on the international

financial markets, in particular

financial markets, in particular to the holders of petrodollars. From bonds or private placement contracts we could eventually pass on to the denomination of time claims and liabilities before arriving, certainly at a much later stage to sight paper, the ultimate stage, which would give the ECU the traditional functions of money.

The difficulties are numerous. They need studying but I think that they can be solved. Politically the coexistence with national currencies does not risk to endanger the financial equilibrium or the sovereignty of the member States. For the construction of Europe the use of a more dynamic European monetary unit than our present unit of account could be as fitting a solution as the narrowing of margins to ensure European monetary unity in the long term, provided, of course, that there is the political resolve to support this grand design.

This grand design, in spite of the storms, is present in the minds of European politicians and in the Community

institutions. This is their will

institutions. This is their will. The latest initiatives, especially those taken by President Giscard D'Estaing, have no other meaning. How can we proceed faster and further ? How can we give Europe not only a booster but a built-in dynamism ? It is an enterprise of hope. It is true that the difficult roads have their stones, obstacles and holes. I accept the thorns and obstacles if, as the Ancient Latins said : " Europe through narrow passages climbs to high destiny".