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THE INTERNATIONAL MONETARY SYSTEM : A COMMON MARKET POINT OF VIEW

Speech delivered by M. Raymond BARRE,
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It has been two years since I last had the pleasure of visiting here. Then, at the beginning of June 1968, the situation of the international monetary system dominated our conversation.

The heavy run on gold in March of that year had been scarcely slowed down by the creation of the two-tier gold price market, when France's social upheavals in May challenged the solidity of the franc. Simultaneously, the parity of the German mark came into question and, by autumn, it had become a principal issue in the Federal Republic's election debate.

One had to wait till nearly the end of 1969 for the modification in the parity of the French franc and the German mark and for the creation of the SDR system to bring about a certain stabilization in international monetary relations. Yet fears have not disappeared because the system still faces fundamental problems.

Today, I would like to discuss with you a "Common Market Point of View" of the international monetary system. May I stress that it is only one view of the situation. Diverse views on the subject can be found not only as between member countries of the Community, but also between authorities within a country. In the face of this diversity, it is rather remarkable that the Six have agreed to move toward a common position with regard to their international monetary affairs.

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I will try to give you a personal interpretation of the situation for what it may be worth. Perhaps its only merit will be frankness for I believe that, in important matters, one must not say what one does not believe nor disbelieve what one says.

Then, too, perhaps I should enter a disclaimer or an apology, particularly before such a distinguished audience : my analysis will be simple. I am aware of the sophisticated studies the subject has inspired. I am not prepared to compete with the authors of these, in technical virtuosity, in fashionableness, or in imagination. Politics - for this is what we are talking about - are, after all, based upon a few clear concepts.

Here, then, are some of the aspects of the present problems in the international monetary system, as observed from inside the Community, and later a few words about why we believe that the Community's development into a common economic and monetary union can contribute to a solution of these problems.

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It appears to us that the basic problem in the international monetary system is the massive and chronic balance of payments deficit of the United States. It undermines confidence in the dollar ; it can threaten the entire network of international economic relations. This is why, for many years, we have been asking the United States for a policy of reducing their payments deficit.

We know it is not easy. We understand that the deficit is linked not only to economic factors, but also to some aspects of the general policy of the United States. We understand also that, because of the limited impact of international transactions on the U.S. economy, strong deflationary policies would be needed to affect significantly the U.S. external position. It is also clear that, for social

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reasons, the United States cannot accept sharply increased unemployment.

So far, so good. But we think also that, in the recent past, the U.S. economy experienced overheating and that the monetary and fiscal policies required to eliminate excessive inflationary tendencies were too much delayed. Such policies would increase foreign confidence in the United States economic management. European countries cannot afford themselves durable payments deficits because they cannot find unlimited financing. It is difficult for them to accept this apparent indifference toward the balance of payments problem they observe sometimes in the United States, whilst they are financing a large part of their deficit. For economic and psychological reasons, a long-range stabilization policy, conducted with tenacity, is strongly needed in the United States.

Europeans look for this kind of policy because they do not see a devaluation of the dollar as an efficient remedy to the U.S. deficit. For them, the dollar is a strong currency in a weak phase. This weakness is provoked by domestic inflation and certain external factors. If we compare the evolution of costs and prices in the United Stated and in European economies, it does not appear that the competitive position of the United States is badly damaged ; on purely commercial grounds, many countries in the world would not accept a devaluation of the dollar. If it would be a devaluation, they would follow it. Furthermore, a devaluation of the dollar would not eliminate some special factors which are responsible for the payments deficit of the United States. But Europeans would not go as far as to exclude definitely a change in the parity of the dollar. As Alfred de Musset said, "il ne faut jurer de rien". What is improbable is not impossible.

It would be no longer a solution to the difficulties of international adjustment to use some gadgets like crawling peg and so on. It would more particularly mean that the creditor countries would eventually have to accept a reevaluation of their currency for reasons which could be in conflict with the situation of their

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economic activity and the state of their current balance of payments. Look at the German experience. After a reevaluation of 9 % not only they did not get the stability for which they are struggling, but, because of short-term capital movements, their reserves are now higher than in september 1969. If we cannot exclude in qualified conditions the use of a moderate flexibility of exchange rates, it would be nonetheless adventurous to think of greater exchange rate flexibility as a panacea for the international adjustment process.

At any rate, a satisfactory solution could eventually be defined as a "mix of adjustment and financing". The condition would be that the adjustment process would be more than superficial in the United States and that financing would be realized by normal methods of conditional credits instead of unlimited accumulation of dollar balances by foreign central banks.

I think this is a major point. It would be possible to accept a moderate increase in dollar balances as a contribution to the growth of international liquidities. But I am not sure that, in the future, an increase in the dollar balances going on at the present rate would be tolerable. The problem is to-day postponed because France and Italy have to replenish their reserves. Mr. P.P. Schweitzer was right when he drew attention in Copenhagen to the necessity for the United States to finance their deficit by using their own reserves and the resources they can obtain from the International Monetary Fund.

In next months and in view of the second allocation of special drawing rights, we will have to face the important problem of how to ensure an optimal relationship in international liquidity between gold, dollars and special drawing rights, that is to say how to limit the share and the rate of increase of dollar balances in the international monetary system.

Gold must continue and will continue to play a fundamental role in the international monetary system. In spite of some statements, European countries are not favorable to a demonetization

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of gold, because gold is <u>par excellence</u> a precautionary balance and safeguards their autonomy. This does not mean that they did not learn lessons from past experience. They are not ready to repeat the errors of the gold bloc countries in the thirties. Most countries would be ready to hold dollars as working balances, but, in the line of the Rio de Janeiro agreement, they would tend in the future to substitute special drawing rights for dollars. In other words, they prefer international reserve instruments than a national currency used as international reserve. Even if we succeed in the Common Market to create a common currency, I doubt whether we will allow it to become a reserve currency. This is true even if it becomes an important trading currency.

What we need now in the international monetary system, is an orderly growth of the various reserve instruments. This will imply some constraints for the United States, but this would avoid the risks of a breakdown of the international monetary system by a proliferation of controls.

To define the conditions of this orderly growth and to manage it, EEC-countries would play a major role and a common policy of harmonization of their reserves would be a key condition to a satisfactory working of the system.

It is time now to give you some indications on what we are trying to do in the Community.

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After we achieved our customs union and established a common agricultural policy, the Community's next and most ambitious target, selected at the Hague Summit Conference in December last year, is the step-by-step creation of an economic and monetary union. I can assure you that we neither ignore nor underestimate the difficulties of the undertaking.

First of all, there are the technical difficulties. It is now no longer a question of tariff and quota disarmament but the job of harmonizing economic, fiscal, monetary, and social policies of the Six, so that we can have common policies, where necessary, in all of these areas. Today each member country has different economic and social structures and they do not use the same trade-offs between growth and employment on the one hand and price stability on the other.

Second, there are complexities of a political nature. The construction of the Community has reached a stage in its process whereby it touches directly upon the role of the governments of member states and upon relationships with their parliaments and with public opinion - the voter. Moreover, the convergence of national policies is being attempted at a time when economic, social and political uncertainties place an added strain upon governments and society. These factors hardly facilitate the acceptance of the disciplines required for our undertaking.

Finally, the economic and monetary union will not be constructed on virgin ground. It will be founded on the complex reality of six nations, each with their own roots and traditions.

For all these reasons, action will be effective only if it is carried out prudently and gradually.

Then, quite naturally, there are international problems : a community of states growing progressively stronger in economic and monetary affairs will influence and modify the present world system of economic and monetary relations between nations. At the present time there are limited possibilities given to the six member countries

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separately to influence or modify the present system. It is not surprising that the strengthening of the Community, especially in this field, meets with apprehension and even opposition. This factor alone makes it indispensable that the building of the economic and monetary union take place in a climate of mutual understanding and cooperation between the Community and the rest of the world.

Yet the obstacles, as real and as difficult as they are, cannot cause doubt concerning the necessity of the undertaking. Economic and monetary union is the next logical and essential step in the Community's development. The European Community is not viable without a more solid economic structure. The common market of commodities and services remains incomplete without the underpinning of a common market of capital and of Community mechanisms for monetary cooperation. With these it will be possible to have a Community which can enjoy growth and stability and avoid economic and monetary shocks which could bring down the structures already built. In the foreseeable future, a common currency could, indeed, crown the achievement of economic and monetary union.

Another factor which is both a spur and nettle is the negotiations for enlargement. They will call for the creation of a framework in which the economies and the currencies of the candidate countries - especially those of Great Britain - can be contained without fragmenting the unity of the Community.

Eventually, the Community will, through its new undertaking, provide more influence and direction to the international monetary system which is currently in search of its balance. By the same token, it will gradually achieve a larger margin of action for its own policies.

Here, I cannot stress strongly enough the pressure of public opinion in the pursuit of monetary integration. Its absence was felt in Europe, not only during the monetary crisis of 1969, but also in relation with the consequences of last year developments in the Eurodollar market. After these events, it appears that public opinion has more conscious of the internal and international monetary aspects of the Community's construction. At last, it seems that the voter realizes the practical and political importance of questions which hitherto have been left to the specialists.

Our economic and monetary union will not come into existence overnight. We can safely expect many ups and downs in this decade. Howewer, we should be accustomed to difficulties and reverses after experiencing them for 12 years in Community affairs. The important thing is that the goal - economic and monetary union - has been clearly defined. It has been defined by the heads of state and government themselves. The remaining elements which we in the Community's institutions must provide consist mainly of patience and perseverance plus, perhaps, some political ingenuity now and then.

As you know, a group of experts under the chairmanship of M. Pierre Werner, President and Minister of Finance of Luxembourg, has presented a report giving the fundamental options and indicating the steps that must be taken to achieve economic and monetary union. On the basis of this very significant report, the Commission of the European Community has made specific proposals to the Council of Ministers. The Council will take its decision before the end of this year. Its action will be of capital importance for the Community's future.

During the first stage on the road to economic and monetary union, we expect to concentrate upon the convergence of the economic policies of the member states - using as a framework the third program for medium-term economic policy applicable for the period from 1971 to 1975. We also expect to start the process of creating a European capital market and a specific system of exchange within the Community, so as to reduce gradually margins between rates of exchange among the member countries. If we carry out these actions, it will open the way for further steps, making it possible to achieve the basic elements of economic and monetary union by the end of the 1970's.

These developments during this decade would bring real advantages to outside nations.

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They would allow a better international coordination of economic policies on which the growth and equilibrium of the international economy depends in the long run. Obviously, such coordination is easier and more efficient if carried out between several large economic entities rather than a great number of small economic units.

Next, the Community's own moves toward economic and monetary union would facilitate the international adjustment of balances of payments. This can come about by inducing economies of scale in the management of international liquidities, by putting Europe back into a ranking position as international banker, and by permitting recourse eventually to a moderate flexibility of the exchange rates between well-organized monetary entities.

Finally, Europe, with an economic and monetary union, will be in a position to assume a proportionate share of certain international burdens that have weighed heavily upon the United States since the 1950's.

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Concluding, I would like to urge most strongly that you in the United States do not misinterpret the intentions of the Community or the spirit that inspires its actions.

We are constructing a united Europe for Europeans ; not against the United States. We both know that the United States has interests which do not always coincide with those of Europe. Thus, we cannot assume that what is good for the United States is inevitably good for Europe. The ~~obverse~~ adverse is also true. Yet we also know that despite certain divergences of interests we share a common faith in certain basic values of the western civilization that tie us together. These are what matter.

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I am convinced that the future of world peace and progress - meaning the ability to deal with shared problems throughout the world - depends largely upon close and successful cooperation between the United States and a united Europe. It will be all the more fruitful when the cooperation takes place between equal partners.

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