



COMMISSION DES COMMUNAUTÉS EUROPÉENNES
COMMISSION OF THE EUROPEAN COMMUNITIES
KOMMISSION DER EUROPÄISCHEN GEMEINSCHAFTEN

Direction générale des affaires économiques et financières
Directorate-General for economic and financial affairs
Generaldirektion Wirtschaft und Finanzen

**Rapport du groupe de réflexion
«Union économique et monétaire 1980»**

**Report of the Study Group
«Economic and Monetary Union 1980»**

**Bericht der Studiengruppe
»Wirtschafts- und Währungsunion 1980«**

Contributions individuelles / Individual contributions / Individuelle Beiträge

Annexe II • Annex II • Anlage II

TABLE DES MATIERES

CONTENTS

- A) H.W.J. BOSMAN, Professeur dans les domaines : "Monnaie, crédit, banques" à l'Université de Tilburg
1. What does an Economic and Monetary Union include ? (UEM-7)
- B) G. BROUWERS, Président de la Chambre de Commerce et d'industrie de la Haye
1. Analyse critique du passé et enseignements pour l'avenir (UEM-38)
- C) L. CAMU, Président de la Banque de Bruxelles
1. La recherche d'une unité de compte européenne par les opérateurs (UEM-60)
- D) I. FOIGHEL, Professeur de droit à l'Université de Copenhague
1. The Institutional and Legal Problems in connection with an External Borrowing and an Exchange Stabilization Fund for the Community (UEM-62)
- E) F. FORTE, Vice-président de l'ENI, Roma
1. A Fiscal Framework for European Union (UEM-10)
 2. Energy scenario and European Energy Institutions (UEM-12)
- F) H. GIERSCH, Directeur de l'"Institut für Weltwirtschaft an der Universität Kiel"
1. The Case for a European Parallel Currency (UEM-13)
- G) P. LYNCH, Professeur d'économie à l'Université nationale d'Irlande, Dublin
1. Monetary integration - A note on the Irish experience (UEM-26)

H) Sir Donald MAC DOUGALL, Conseiller principal pour les affaires économiques de la "Confederation of British Industry", London

1. Discussion paper submitted for the second meeting of the Group on 29/30 March 1974 (UEM-8)

J) H. MARKMANN, Directeur de "Wirtschafts- und Sozialwissenschaftliches Institut des DGB"

1. The Policies of Social Security in a future Economic and Monetary Union (UEM-24)
2. Concerted Action in the Economic and Monetary Union (UEM-50)
3. Measures to fight Unemployment (UEM-52)

K) T. PEETERS, Professeur d'économie à l'Université de Louvain

1. EMU and Employment, Price and Income Policies (UEM-9)
2. The Link between Internal Monetary Policies and a Credible Intra-European Exchange Rate System (UEM-54)

L) A. SHONFIELD, Directeur du "Royal Institute of International Affairs"

1. The Aims of the Community in the 1970's (UEM-11)
2. A European Community Balance - of-Payments Fund (UEM-34)

M) N. THYGESEN, Professeur d'économie à l'Université de Copenhague

1. Community Coordination of Exchange Rate Policy (UEM-43)

Document rédigé par H.W.J. BOSMAN

Document written by H.W.J. BOSMAN

1. What does an Economic and Monetary Union include ?

What does an economic and monetary union include?

The monetary aspect of an economic and monetary union can be more easily defined than the economic aspect. According to the Werner-report a monetary union implies full and irrevocable internal convertibility of the currencies at fixed definite rates of exchange and full liberalization of capital movements. Because the money-supply or the liquidity of a member-state can in that situation no longer be controlled by the national central banks, monetary policy at least in its main decisions must shift from these authorities to authorities at the community level. What monetary policy implies is also clear: discount policy, open-market-policy, liquidity ratios, ceilings to bank lending, exchange-rate-policy (of the community towards the outer world). Not only the final situation is rather clear, it is also possible to suggest stages in which co-ordination between central banks will be gradually replaced by a common system of central banks, which could be based on the European Fund of Monetary Co-operation. The narrowing of the margins of fluctuation of the European currencies also follows logically from the definition.

The authorities who should combine their efforts and ultimately must form a new body, are also clearly to define. They are the central banks under a certain general authority from the Government. The ultimate relation between the Federal Reserve System of the Community and the Political Authority of that Community will not be easy to find as this relation now changes from country to country but the negotiations on this point will not differ fundamentally from the negotiations concerning the political organs of the Community such as a Government and a Parliament.

That the monetary aspect is in more precise terms to define is proven by the Werner-report and also by the report "European Economic Integration and Monetary Unification" of the Study Group on Economic and Monetary Union.

Though the ultimate transfer of power in the monetary field to a supra-natural organ will be a very decisive but also

difficult step in the process towards a European union, from the technical point of view the obstacles will be smaller than in the fields of social and economic policy. The authorities (central bank people and ministry of finance people) know each other and often meet. They have a great expertise that is shared only by a few people outside their offices. The only important economic group that is directly influenced by the decisions of the monetary authorities is the banking system that is generally well organized and with which contacts are relatively easy. There also seems to be a general tendency that the banking system as a rule follows recommendations of central banks. Of course the structure of the banking systems is rather different in the various member-states, but that points to the conclusion that the implementation of the broad decisions of the European monetary authority should be decentralized and for the time being remain in the hands of the central banks.

In the broad field of economic and social policy far more pressure groups are involved and parliamentary control is much stricter than in the case of monetary policy. These issues are more debated in press, t.v. and radio than in the case of monetary policy. Wage policy for instance has a direct bearing on the income and welfare of the people; the same applies to tax policy. A budget policy that is restrictive for macro-economic reasons, will always hurt some groups and interests and whereas within the nation-state it is already difficult to formulate and implement a sound policy, e.g. to stabilise the business-cycle, it will be far more difficult to harmonize those policies between nation-states. Moreover to reach a certain objective there are many possible instruments.

One instrument can from an economic, social and political point of view be better applied in country A and another instrument in country B but implementing both in their respective countries may threaten equilibrium between these states. The same can happen of course in the field of monetary policy but as pointed out before, fewer and less broad interests are involved and a compromise that prevents a conflict can be more easily reached.

The Werner-report rightly stresses that in the final stage two community organs should be established : a "centre of decision for economic policy" and a "community system for the central banks". When it comes to lay down what should happen during the first stage the report, besides recommending smaller margins between currencies than follows from the margin towards the U.S. dollar, does not mention precise measures of economic policy but relies on : consultations, meetings, big lines of economic policy, recommendations, harmonization. More precise is the idea of a survey at community level before governments draw up their budgetary proposals. Most of these proposals have been taken over by the Council of Ministers, but the experience of the past few years taught us that these procedures have proved to be failures. One can safely assert that these procedures and the deliberations within the Council have never been effective in influencing national decisions. For that reason, some power should be given to Community authorities, even if it were only a right of approval or veto and it should be rather precisely laid down in what fields this power may be executed and how detailed this power will be.

In order to reach agreement between the present member-states this power can not be too detailed but it should be effective - not to harmonize economic policy in all its aspects - but to prevent effectively tendencies that would separate the development of the economies still more than is now already the case. This could bring us to an action of the community authorities to narrow the discrepancies that exist at present between member-states.

The report of the Study Group says (p. 4) :

"Autonomy of national economic policy objectives and the lack of homogeneity of attitudes in particular towards the trade-off between unemployment and inflation are at the origin of the familiar adjustment problem which has been plaguing the functioning of the international monetary system for more than a decade now. It is also the central issue in the process of creating a monetary union".

It should be the aim of the Community supra-national body of which the Commission of the European Communities is the logical predecessor, to judge whether measures proposed by the national authorities would strengthen the differences in attitudes towards the trade-off. In that case one could imagine that e.g. a wagefreeze, or other measures of income policy, proposals pointing to a broadening of the budget deficit (according to national accounts following the O.E.C.D. pattern), with more than say 10 %, tax measures which amount to more than certain percentages, should be judged before by the Commission. In case a right of approval or of veto would be thought to go too far for the moment, a right to postpone the measure or just the right to give the "European" opinion would already be interesting. In the latter case the opinion would have to be published in order to influence public opinion. The present difficulty is that it is not known whether a concrete measure of economic policy is against the broad community interest. Following my proposal the European authority must gradually form a wealth of material and exercises on which later to base an economic policy of their own. I have limited myself to what could be done in the time to come and what should be the minimum measures to be taken in the field of procedures. The efforts to reach fundamental solutions for problems like a community budget, a European corporation, harmonization of social security etc. should of course go on. We cannot, however, wait for those issues to be solved to gain some experience in dealing with a European social and economic policy.

J.W.J. Bosman

Tilburg, 4th March 1974

Document rédigé par G. BROUWERS

Document written by G. BROUWERS

1. Analyse critique du passé et enseignements pour l'avenir

G. BROUWERS

ANALYSE CRITIQUE DU PASSE ET ENSEIGNEMENTS POUR L'AVENIRIntroductionLa crise actuelle

1) La crise que traverse actuellement la Communauté européenne est plus grave et plus vaste que les précédentes. Par le passé, des obstacles spécifiques ont maintes fois freiné le développement de la Communauté, mais un effort conjoint a le plus souvent permis de les surmonter. Cette fois-ci, cependant, son unité encore inachevée est menacée par un malaise plus général qui éprouve davantage sa force de résistance et partant sa cohésion. Ce malaise trouve son origine dans un ensemble de causes.

Une cause récente et importante est la crise de l'énergie. Celle-ci a provoqué dans une série d'Etats membres un déficit de la balance des paiements qui a profondément perturbé leur équilibre économique. En outre, coïncidant avec une pénurie exceptionnelle sur le marché des matières premières, elle a porté l'inflation en Europe, qui était déjà vive, à un niveau jamais atteint. Aussi grave soit-elle en elle-même, la crise de l'énergie n'a somme toute fait que mener à son apogée un mouvement en cours depuis quelques années. Par d'importants mouvements de capitaux spéculatifs, le désordre monétaire international a non seulement rompu la stabilité relative qui caractérisait les rapports monétaires en Europe mais a également contrecarré les tentatives timides visant à une politique conjoncturelle communautaire et sapé la résistance à l'inflation.

L'ébauche encore fragile de l'unité monétaire de la Communauté n'a pas pu résister à de telles pressions. Les pays de la Communauté connaissent actuellement une inflation démesurée et un chômage accru qui affaiblissent sa force de croissance déjà atténuée par des causes internes. Ces tensions économiques provoquent des tensions politiques. Ensemble, elles conduisent les gouvernements des Etats membres à se concentrer davantage sur leurs problèmes strictement nationaux.

.../...

2) Il ne s'agit pas seulement pour les Etats membres de sauvegarder à court terme leurs intérêts personnels immédiats. L'impuissance de la Communauté d'influer sur le cours des événements accrédite de plus en plus la thèse que, en adoptant le rythme qui était le sien, la Communauté a surestimé ses possibilités pratiques et que les disparités nationales sont encore trop grandes pour être surmontées par des spéculations technocratiques. Avant qu'on puisse songer à une relance de la Communauté, il conviendrait d'abord de triompher des difficultés concrètes sur le plan national, fût-ce par la concertation ou la coopération. Dans une telle optique, la Communauté n'a de chances réelles de réussir que si le climat est favorable, c'est-à-dire, si les problèmes nationaux sont en bonne partie résolus.

Toutefois, "reculer pour mieux sauter" est un principe qui ne convient pas dans la situation actuelle. Reculer n'a un sens que si l'on dispose d'une assise solide sur laquelle on peut se replier. Or, l'assise nationale est aujourd'hui devenue trop étroite pour la solution des problèmes auxquels les Etats membres de la Communauté sont confrontés. Afin de sortir de l'impasse, il est donc indispensable de renforcer la Communauté plutôt que de la figer pour un temps dans l'immobilisme. Sur le plan national on peut tout au plus encore essayer de se protéger tant bien que mal des effets des influences perturbatrices. Tenter de se maintenir pendant longtemps sur l'assise trop étroite de l'économie nationale serait retourner vers un passé dont les leçons nous ont amenés il y a un quart de siècle à nous engager résolument dans la voie d'une coopération nouvelle.

3) Il est d'ailleurs illusoire de vouloir revenir temporairement à des solutions nationales. Non seulement parce que, en raison de l'intégration de fait de l'économie européenne, les problèmes ne seront résolus que sur le plan national et donc de manière partielle seulement et que leur solution demandera par conséquent un temps de plus en plus long, mais aussi parce qu'on se heurtera sans cesse à de nouveaux problèmes auxquels s'appliquera ce qui vient d'être dit à propos des problèmes actuels. Le monde ne s'arrête ni économiquement ni politiquement. Dans les multiples discussions sur le choix de la société de demain, c'est à peine si l'on mentionne encore l'idée de l'unité

.../...

européenne, alors que tout ce que nous avons appris au cours de ce siècle démontre que cette unité est bien le fondement indispensable à l'équilibre politique et économique de notre continent. Si la Communauté marque le pas, la société de demain se fera sans elle.

Il serait évidemment foncièrement erroné de croire qu'une Communauté mieux cimentée serait en mesure de surmonter à court terme les difficultés dont souffrent actuellement les Etats européens. Cela vaut tout particulièrement pour l'inflation. La persistance et l'accélération croissante de celle-ci, problème économique à l'origine, en ont fait un problème politique dont les données sont de plus en plus liées à la question, de politique sociale, de la répartition des revenus. Il n'empêche que, grâce à une action plus efficace face à l'ensemble de nos problèmes économiques, une Communauté consolidée sera mieux en mesure qu'un Etat isolé d'apporter à ce problème crucial une réponse économiquement et socialement justifiée. Il est évident que les bases de départ d'une Communauté plus solide devront être établies d'un commun accord par des mesures préliminaires concernant les problèmes qui se posent avec acuité, tels que les déficits particuliers des balances des paiements résultant de la crise de l'énergie, l'hyper-inflation due en partie à cette même crise et les rapports de parités entre les Etats membres. Mais les meilleures techniques sont vouées à l'échec si on s'avise une fois de plus à vouloir les appliquer par la voie qui s'est révélée tant de fois infructueuse de la coordination non obligatoire.

4) Le marasme actuel de la Communauté ne vient pas de ce qu'elle aurait surestimé son importance. La cause profonde en est que les Etats membres ont bien trop hésité à tirer les conséquences politiques concrètes des principes politiques qui ont présidé à sa création. C'est cette faiblesse organique qui a empêché la Communauté de jouer un rôle positif face aux problèmes des dernières années.

Alors qu'à l'époque du plan Schuman, l'aspect politique et l'aspect économique de l'intégration européenne étaient équivalents, la valeur attachée au premier n'a cessé de se déprécier au fil des ans.

Aujourd'hui, la Communauté en est arrivée au point que pour poursuivre son intégration économique et éviter que les Etats membres ne reviennent à des politiques exclusivement nationales, il faut des mesures concrètes,

.../...

d'ordre politique, par-là entendez également d'ordre institutionnel. L'objet de la présente introduction est d'illustrer brièvement la thèse développée ci-dessus en prenant pour point de départ le développement politique et économique de la Communauté et de dégager ainsi l'orientation principale des propositions précises, à court et à plus long terme, qui sont exposées dans les chapitres suivants.

Les débuts de l'intégration européenne

5) La volonté d'écartier à tout jamais les divisions politiques et économiques des années trente a été le point de départ de l'intégration européenne. Dans un premier temps, les efforts ont avant tout porté sur l'intégration politique; les menaces de la guerre froide opposant très rapidement l'Est et l'Ouest n'y étaient pas entièrement étrangères. Ces efforts ont abouti à une double initiative : la création de la Communauté du charbon et de l'acier, d'une part, et de la Communauté européenne de défense, de l'autre. Dans les deux cas, l'objectif était de créer des garanties contre une renaissance de la rivalité franco-allemande, rivalité qui avait été si longtemps au centre des divisions en Europe.

La première initiative avait pour but de dénationaliser l'assise industrielle de la guerre en intégrant l'industrie européenne du charbon et de l'acier dans une Communauté supra-nationale. La seconde visait à dénationaliser l'appareil militaire en l'intégrant dans une communauté supra-nationale de défense. La première fut couronnée de succès, la seconde échoua. Un système militaire intégré apparaissait prématuré et l'on chercha, dès lors, à mettre sur pied une coopération militaire dans le cadre atlantique.

6) Si le succès rencontré par la CECA constituait une première épreuve importante de la force des tendances à l'intégration européenne, ce succès restait limité à la "petite" Europe des Six. Le reste de l'Europe occidentale ne semblait pas encore disposé à franchir le pas décisif de la supra-nationalité même si celle-ci n'était présente dans la CECA qu'à un degré relativement modeste. Cette supra-nationalité apparaissait dans les pouvoirs de la Haute Autorité qui lui permettaient a) moyennant un budget propre obtenu grâce à des prélèvements mis à charge de l'industrie communautaire du charbon et de l'acier, de promouvoir la modernisation des secteurs considérés et de faire face aux éventuelles conséquences sociales d'une telle modernisation; b) d'empêcher

.../...

la formation d'ententes et donc de positions dominantes dans ces industries. La Haute Autorité était directement responsable devant l'Assemblée pour tout ce qui avait trait à ses compétences propres. Lorsque des problèmes plus graves se sont posés, comme la crise charbonnière de 1957, il est apparu que les pouvoirs de la Haute Autorité étaient insuffisantes et elle a dû se soumettre aux décisions du Conseil des ministres où les intérêts nationaux étaient encore prépondérants.

7) A l'origine, on oeuvrait avant tout dans le sens d'une intégration "fonctionnelle" de la vie politique et économique, c'est-à-dire d'une intégration d'objectifs spécifiques tels qu'incarnés dans la CECA et la CED. Outre l'aspect très important de la sécurité dans ces deux domaines, l'idée qui présidait à ces efforts était qu'une intégration de fait des économies des Etats européens ne constituait pas une base suffisante pour appliquer à une plus grande échelle le principe de la supra-nationalité. Après l'échec de la CED en 1954 et la stagnation relative de l'OECE, la force des tendances à l'intégration européenne s'est cependant révélée suffisamment grande pour faire accomplir à l'Europe des progrès beaucoup plus considérables dans le domaine économique.

La Communauté économique européenne

8) En mettant en oeuvre le plan Marshall, l'OECE - dont l'éventail des tâches s'élargira ultérieurement - avait accompli pour l'Europe un travail important dans le domaine de la libération des échanges économiques. Elle avait mis fin aux restrictions quantitatives à l'importation et à l'exportation et multilatéralisé les opérations de paiement entre les Etats européens. Ces deux mesures avaient favorisé au plus haut point le redressement et la croissance de l'économie européenne. Il était apparu cependant impossible de poursuivre dans le cadre de l'OECE le processus de libéralisation et d'aboutir à un démantèlement systématique des tarifs douaniers. Il fallait pour cela des impulsions politiques plus fortes qui, en définitive, n'ont pu être trouvées qu'à l'intérieur de l'Europe des Six désireuse d'une intégration totale. Ainsi est née la Communauté économique européenne.

9) La CEE a été conçue en tant qu'union économique à caractère supra-national provisoirement limité. Si on excepte les compétences propres de la Commission européenne en matière de politique de concurrence et de politique

commerciale, c'est au niveau du Conseil des ministres, composé des représentants des gouvernements des Etats membres, que se situe le centre de décision concernant la politique socio-économique. Sur la base des objectifs définis dans le Traité, la Commission européenne a pour tâche de soumettre des propositions au Conseil qui, dans certains cas, décide à la majorité qualifiée. Ces décisions auraient dû conduire, après une période de transition de 12 ans, à une union complète avec libre circulation des marchandises, des personnes, des services et des capitaux ^à et/une politique commune dans la mesure où, d'après le Traité, celle-ci était indispensable au bon fonctionnement de l'union considérée. Pour cela, le budget communautaire, limité à l'origine, serait doté des moyens nécessaires selon des modalités qui étaient également déterminées par le Traité.

La politique commune couvre également les cinq domaines suivants :

- a) L'union douanière et la politique commerciale commune qui s'y rattache;
- b) la politique agricole commune;
- c) l'harmonisation des politiques économiques et la politique commune en matière de concurrence en vue d'assurer un marché totalement libre;
- d) la politique structurelle, y compris la politique régionale, afin d'assurer à la Communauté une structure économique équilibrée et efficace;
- e) la politique conjoncturelle et monétaire.

10) Le succès des débuts fut prometteur. L'union douanière fut réalisée pendant la période de transition prévue pour son achèvement. Il en fut de même pour la politique agricole commune. L'agriculture s'était vue attribuer une place toute particulière dans le Traité parce qu'à l'image de la politique menée dans les différents Etats membres on la considérait comme un secteur où la formation des prix ne pouvait être abandonnée au libre jeu de l'offre et de la demande. Le fondement de la politique agricole fut la mise en place d'un mécanisme de formation de prix aussi uniformes que possible et, s'y rattachant, une politique d'importation et d'exportation vis-à-vis des pays tiers, qui seule, pouvaient garantir une libre circulation des produits agricoles. Aussi, cet élément de l'union économique était-il défini avec précision dans le Traité. Cette définition précise et le fait que les Etats membres, fût-ce à des degrés divers, avaient particulièrement intérêt à ce que la politique agricole commune se fasse ont grandement contribué à ce succès.

.../...

11) En vue de réaliser la circulation totalement libre des marchandises, des services, des personnes et des capitaux, la Communauté a déployé pendant la période de transition une très grande activité pour harmoniser les dispositions législatives nationales et notamment les régimes fiscaux. Mais, les progrès furent lents parce qu'on se heurtait à de nombreuses traditions et particularités nationales auxquelles les Etats membres se raccrochaient souvent avec acharnement, parfois sous l'influence de groupes de pression. C'est pourquoi ce chapitre l'union économique n'est pas encore achevé.

12) Cela vaut dans une plus forte mesure encore pour la politique structurelle. Cette politique comporte deux aspects. Le premier est l'harmonisation des mesures nationales destinées à venir en aide aux régions en retard et aux secteurs défavorisés en vue, d'une part, d'éliminer les distorsions de concurrence à l'intérieur de la Communauté, et, d'autre part, de renforcer la structure économique de celle-ci. Une politique énergétique commune revêtirait ici une importance particulière. Le deuxième aspect est l'encouragement des activités qui ne peuvent s'épanouir pleinement que sur le plan communautaire. L'utilisation de techniques modernes et la recherche nécessaire à cet effet présentent sur ce point un intérêt exceptionnel.

Le développement de l'industrie nucléaire était considéré comme un exemple particulier de ce type. C'est dans cette optique que, parallèlement à la CEE et sur les traces de la CECA, que fut créée une nouvelle Communauté : EURATOM. Cependant, les intérêts nationaux à court terme apparurent tellement plus importants que ceux de la Communauté dans son ensemble qu'EURATOM se solda pratiquement par un échec.

Bien que les pays de la Communauté aient manifesté pendant la période de transition une croissance relativement forte et diversifiée, on ne peut affirmer que la politique structurelle de la Communauté en fut un facteur important. Les tentatives visant à coordonner les politiques nationales des Etats membres se sont encore trop heurtées à des conflits souvent imaginaires d'intérêts nationaux. Cette coordination a notamment failli sur le plan important de la politique régionale; la Communauté devait payer chèrement cette carence lorsqu'à la fin des années soixante, sa croissance et sa stabilité furent ébranlées par l'inflation et par le dérèglement du système monétaire mondial.

.../...

Stagnation dans la CEE

13) La gravité de ces difficultés est imputable dans une large mesure à la carence de la partie de la politique de la Communauté qui aurait précisément dû en être l'élément central, à savoir la politique conjoncturelle et monétaire. Contrairement à la politique commune qu'il prévoyait dans de nombreux autres secteurs, le Traité préconisait dans ce domaine la coordination des politiques nationales des Etats membres. Il posait donc en principe que ceux-ci, en premier lieu responsables de leur croissance et de leur équilibre propre, assureraient la croissance et l'équilibre de la Communauté dans son ensemble en coordonnant leurs politiques, tout en acceptant d'éventuelles différences d'orientation imposées par des circonstances divergentes. Il sous-estimait donc les limites que la dépendance réciproque et l'interpénétration croissante des économies allaient imposer aux politiques conjoncturelles nationales. Il méconnaissait la nécessité d'une politique conjoncturelle et monétaire commune rendue indispensable par l'intégration elle-même. En conséquence, les institutions de la Communauté n'y étaient pas préparées. A mesure que les tensions internationales s'aggravèrent, cette carence organique se fit de plus en plus sentir.

14) La Commission européenne, consciente de la nécessité d'une coordination aussi effective que possible, déploya dès le début une grande activité dans ce domaine. Cinq comités consultatifs compétents dans les différents secteurs de la politique économique et financière préparèrent les débats périodiques du Conseil des Ministres au cours desquels les directives élaborées par la Commission européenne en matière de politique conjoncturelle étaient examinées. Ces débats portèrent bien vite également sur des programmes à moyen terme et permirent de recueillir de précieuses informations sur la politique suivie par chacun des pays membres. Toutefois, ils ne débouchèrent pas sur de réelles confrontations et n'influencèrent donc pas concrètement la politique des gouvernements nationaux. Sur ces points essentiels, ceux-ci étaient trop préoccupés par la situation économique et politique dans leurs pays respectifs pour accepter l'idée d'en débattre encore au sein du Conseil des Ministres.

15) Au début, il n'y avait pas lieu de s'en inquiéter, compte tenu de la forte expansion économique et de la progression du taux d'inflation encore assez lente à cette époque. Avec un peu d'optimisme, on pouvait considérer

qu'il s'agissait du démarrage d'une procédure qui, à la longue, deviendrait plus efficace. Toutefois, à mesure que l'inflation s'accélérait, le contraste entre la gravité des problèmes et l'inefficacité de la coordination au sein du Conseil devint plus manifeste. Les rapports et les recommandations de la Commission européenne se firent plus pressants, surtout lorsque les symptômes de crise monétaire internationale s'aggravèrent dans la seconde moitié des années soixante. La nécessité de faire front en commun contre les dangers qui menaçaient la stabilité de la Communauté de l'extérieur apparut de façon évidente. Toutefois, il était tout aussi évident qu'une action communautaire plus vigoureuse sur le plan extérieur resterait théorique en l'absence d'une politique économique et financière commune sur le plan intérieur. L'insistance de la Commission afin qu'il soit tenu compte des intérêts de la Communauté dans la définition des politiques nationales apparaissait comme un exigence à laquelle il était impossible de satisfaire dans la pratique.

16) L'échec de la coordination dans le domaine de la politique macro-économique a coïncidé avec le moment où l'idée d'ériger la supra-nationalité en principe directeur de la politique étrangère était la plus discréditée. Dans la Communauté, les oppositions qui se manifestèrent à ce sujet eurent pour effet d'entraîner l'abandon provisoire dans la pratique de la règle des délibérations à la majorité au sein du Conseil de Ministres, qui n'avait d'ailleurs jamais été appliquée. Les dissensions au sujet de l'élargissement achevèrent de plonger la Communauté dans l'impasse. Il fallut attendre la conférence au sommet de La Haye de décembre 1969 et les deux décisions de principe qui y furent prises concernant l'élargissement de la Communauté et son renforcement interne par la création d'une union économique et monétaire pour débloquer la situation.

L'Union économique et monétaire

17) Le groupe Werner, Chargé de présenter un rapport sur l'élaboration de cette Union, résume de la manière suivante le contenu de celle-ci :

- les monnaies communautaires sont assurées d'une convertibilité réciproque totale et irréversible, sans fluctuation de cours et avec des rapports de parités immuables ou, de préférence, sont remplacées par une monnaie communautaire unique;

.../...

- la création de liquidités dans l'ensemble de la zone et la politique monétaire et du crédit sont centralisées;
- la politique monétaire à l'égard du monde extérieur est du ressort communautaire;
- les politiques des Etats membres à l'égard du marché des capitaux sont unifiées;
- les données essentielles de l'ensemble du budget public, et en particulier la variation de leur volume, l'ampleur des soldes et les modes de financement ou d'utilisation de ces derniers sont décidés au niveau communautaire;
- les politiques régionales et structurelles ne sont plus exclusivement du ressort des pays membres;
- une consultation systématique et continue des partenaires sociaux est assurée au niveau communautaire.

18) Le rapport Werner estimait que l'exercice de ces compétences nécessitait l'institution de deux organes communautaires : un centre de décision pour la politique économique et un système communautaire de banques centrales. Alors que ce dernier serait responsable de la politique monétaire interne et externe, à l'exclusion de la fixation de la parité de la monnaie communautaire, le premier exercerait de façon indépendante une influence décisive sur la politique économique générale à l'égard des autres points cités plus haut.

En ce qui concerne notamment la politique régionale et structurelle, le budget de la Communauté devrait être majoré de façon adéquate. Une autre conséquence de ce transfert de compétences serait le transfert d'une responsabilité parlementaire correspondante au parlement de la Communauté. Le statut de ce dernier devrait refléter ce transfert de responsabilités, non seulement du point de vue de l'ampleur de ses attributions, mais aussi eu égard au mode d'élection de ses membres.

19) Une période de 10 ans était jugée nécessaire pour la réalisation complète de l'Union. Elle pourrait être accomplie en deux étapes, éventuellement davantage. La première étape de trois ans était décrite de façon détaillée. Elle devrait, grâce à une coordination intensive de la politique monétaire et budgétaire et à l'harmonisation des instruments monétaires suivant un calendrier précis et sous le contrôle du Conseil des Ministres, mettre en oeuvre une harmonisation telle que le transfert de compétences à la Communauté et la création d'organes communautaire puissent être entamés au cours de la deuxième étape.

Un rapport sur les réformes institutionnelles sera élaboré en temps utile avant la fin de la première étape, afin que les propositions en la matière puissent être soumises à une conférence intergouvernementale qui sera convoquée conformément aux dispositions de l'article 236 du Traité.

20) Dans sa résolution du 20 mars 1971, le Conseil des Ministres a adopté pratiquement toutes les propositions du Groupe Werner quant au fond. Toutefois, il ne s'est pas prononcé sur la question essentielle des organes communautaires qui seraient chargés d'exercer les compétences nationales qui devraient être transférées à la Communauté. Il s'est borné provisoirement à affirmer que les institutions de la Communauté, à savoir le Conseil, la Commission et le Parlement, seraient mises en mesure d'exercer leurs responsabilités en matière économique et monétaire avec efficacité et rapidité. De plus, il a déclaré expressément que les politiques communautaires mises en oeuvre dans le cadre de l'Union économique et monétaire seraient soumises aux délibérations et au contrôle du Parlement européen.

La résolution exigeait certes le dépôt, avant la fin de la première étape, d'un rapport sur les modifications institutionnelles nécessaires, mais elle restait muette sur la nature des modifications à apporter au Traité. En effet, le transfert de compétences pourrait s'opérer soit sur la base des dispositions existantes du Traité, soit sur la base de dispositions non prévues au Traité, arrêtées conformément à l'article 235, soit sur la base d'une révision du Traité conformément à l'article 236. L'avis favorable d'une conférence intergouvernementale ne serait requis que dans le dernier cas. L'incertitude sur ce point fondamental n'a pas manqué d'affecter le dynamisme de l'harmonisation.

21) Après une période au cours de laquelle peu de progrès sensibles furent enregistrés, la conférence au sommet de Paris d'octobre 1972 confirma expressément la résolution dans tous ses éléments. Elle décida également, pour permettre officiellement le passage à la deuxième étape conformément au texte de la résolution de février 1972, d'instituer un Fonds monétaire européen, doté provisoirement de compétences encore très limitées, et un Fonds de développement régional, financé par des ressources propres de la Communauté. Enfin,

.../...

les chefs d'Etat ou de gouvernement participant à la conférence se donnèrent comme objectif majeur de transformer l'ensemble des relations des Etats membres en une Union européenne. Ils prièrent les institutions de la Communauté d'élaborer un rapport sur ce sujet avant la fin de 1975, retardant ainsi jusqu'à cette date le dépôt du rapport institutionnel qui, en vertu de la résolution de 1971, devait être prêt pour la fin de 1973.

Le faux départ de l'Union européenne

22) La Commission européenne et le Conseil de Ministres de la CEE durent constater à la fin de 1973 que, pratiquement, aucun résultat important n'avait été atteint en ce qui concerne l'ensemble du programme prévu pour la première étape. Pour ce qui est de la coordination des politiques économiques à court terme, les procédures et les instruments prévus ont été respectés. Les consultations préalables et obligatoires à toute mesure importante n'ont réellement jamais eu lieu. Les réunions du Conseil des Ministres ont eu un intérêt surtout académique. Les Comités ont certes permis un échange fructueux d'informations, mais ils n'ont pu guère aller au-delà. Les recommandations de politique économique et notamment de politique budgétaire adoptées par le Conseil étaient de caractère conventionnel, mais sans grande portée pratique. La convergence des politiques économiques n'a été que très imparfaitement réalisée. Même avant l'impact de la crise de l'énergie, des divergences importantes se manifestaient dans le rythme de l'inflation et la balance des paiements.

23) En matière de politique monétaire, certains progrès réels ont pu être réalisés, mais ils se sont avérés précaires. La Résolution de 1971 prévoyait que les monnaies communautaires fluctueraient à l'intérieur de marges plus étroites. Ceci devait se faire d'abord à titre expérimental, avec comme monnaie d'intervention le dollar. En cas de succès de l'expérience, on devait passer d'un régime de fait à un régime de droit, puis à des interventions en monnaies communautaires et à de nouveaux rétrécissements des marges.

Dans le même temps, la coordination des politiques monétaires devait être intensifiée entre les banques centrales, un fonds européen de coopération monétaire créé et, enfin, la libre circulation des capitaux progressivement instaurée à l'intérieur de la Communauté.

.../...

24) La suspension de la convertibilité du dollar ne permit pas la mise en place du mécanisme prévu; néanmoins après une période d'incertitude où le Mark et le Florin devinrent "flottants", un système d'interventions coordonnées fut mis en place au printemps 1972. Les marges de fluctuation admises étaient très supérieures à celles initialement retenues et par là la résolution de 1971 n'était pas respectée formellement, mais elles restaient inférieures de moitié à celles qui auraient pu être obtenues sans un tel système. Les marges vis-à-vis du dollar furent d'abord respectées ("serpent dans le tunnel") puis abandonnées ("serpent seul"). Ainsi les monnaies de la Communauté conservaient entre elles des écarts relativement réduits; les interventions avaient lieu en principe en monnaies communautaires; un mécanisme de crédit à très court terme relayé par un soutien à court terme devait permettre un fonctionnement sans heurt. En juin 1972, le Royaume-Uni et l'Irlande se sont provisoirement retirés de ce système, suivis par l'Italie en mars 1973 et par la France en janvier 1974.

25) En matière de coordination des politiques monétaires, aucun résultat spectaculaire n'a été obtenu. Les consultations préalables, notamment en matière de manipulation de taux ou de système de change, n'ont pas été respectées.

Le fonds européen de coopération monétaire a été créé par un "acte solennel" en avril 1973. Il s'agit d'un organisme doté de très peu de pouvoirs et de moyens. Le soutien monétaire à court terme qui vient d'être élargi est en théorie incorporé au Fonds. C'est un mécanisme lourd qui n'a été utilisé jusqu'à présent qu'une seule fois. Ses ressources sont d'ailleurs très limitées.

En ce qui concerne la libre circulation des capitaux, il y a eu recul. Des dérogations nombreuses au Traité ont été accordées. Aucune philosophie commune n'a pu être dégagée sur la stratégie à adopter vis-à-vis des capitaux extérieurs.

26) Dans le domaine de la politique régionale, aucun progrès n'a été accompli au cours de la première étape. Les discussions continuent sur le Fonds régional ou plutôt sur les montants dont il pourra être doté. Mais on peut se demander si les orientations suivies reflètent un début de conception d'une véritable politique régionale dans la Communauté.

.../...

Il apparaît alors bien que la première étape de l'Union économique et monétaire n'a pas offert ce que l'on pouvait espérer. Le passage morose à une deuxième étape sans relief ni grande signification renforce ce sentiment.

27) Il faut admettre que, conçue à un moment où le système monétaire international restait fondé sur des parités fixes et la convertibilité, au moins de principe, du dollar en or, l'Union économique et monétaire ne pouvait qu'être gravement affectée par les désordres multiples survenus depuis trois ans dans le fonctionnement des mécanismes monétaires du monde. Et il est indéniable que les différences de mentalités, de structures, de niveaux de vie, etc. étaient de nature à rendre difficile l'approche initialement retenue d'une réduction rapide des marges de fluctuation entre les monnaies, en l'absence d'un rapprochement suffisant des structures et d'une redistribution importante des revenus. D'autre part, le bloc communautaire représente par rapport à l'extérieur un ensemble relativement homogène, si l'on tient compte du rapprochement géographique et d'une intégration de fait des économies notamment entre les six pays fondateurs, à la faveur de plus de dix ans d'union douanière complète. Une plus grande flexibilité dans l'approche monétaire et financière et un effort plus grand pour réduire les disparités structurelles devaient avoir été à la mesure des difficultés à résoudre.

28) Au contraire, la CEE n'est jamais parvenue à définir une position commune claire sur la réforme du système monétaire international et par conséquent sur la place qu'une organisation monétaire propre à l'Europe pourrait occuper dans le schéma d'ensemble des relations monétaires mondiales. Cette situation de fait, ne pouvait manquer d'affecter la crédibilité du mécanisme monétaire européen et sa capacité de résister au moindre trouble dans le fonctionnement du système des paiements mondiaux.

Le mécanisme des règlements intracommunautaires s'est alors avéré inadapté à son objet. Il n'a pas été possible en pratique de faire fonctionner un dispositif de crédits réciproques entre les pays européens, et ceci surtout du fait de l'absence d'un accord satisfaisant sur les modalités de remboursement de ces crédits. A partir du moment, en effet, où ni l'or au prix officiel, ni

.../...

le dollar inconvertible ne constituaient plus des instruments mutuellement acceptables pour le règlement de déficits ou d'excédents intra-européens, il devenait très difficile de maintenir un régime de parités fixes impliquant des transferts de réserves. Dans ces conditions, le "serpent" communautaire ne pouvait être maintenu intégralement que dans trois hypothèses : une parfaite coordination des politiques conjoncturelles éliminant par avance toute possibilité de déséquilibre durable dans les paiements intra-européens, l'acceptation par les partenaires européens d'un financement réciproque illimité en montant comme en durée, la définition d'un instrument de réserves adapté aux règlements intra-européens et servant de base aux règlements des soldes ou des concours intra-communautaires.

29) A partir de mars 1973, le mécanisme du rétrécissement des marges a changé de nature à la suite de l'abrogation de l'accord de Washington et de l'entrée dans une ère de flottement généralisé des monnaies. A ce moment-là les pays participant au "serpent" ont cessé d'exclure l'idée d'intervenir sur le dollar des Etats-Unis, mais ils n'ont cependant prévu aucune règle pour la fixation d'un cours communautaire du dollar. Les interventions en monnaies communautaires ont alors pris une ampleur très grande et les pays à monnaie faible ont dû supporter non seulement, comme cela était le cas auparavant, les conséquences de leur faiblesse relative par rapport aux autres monnaies européennes, mais également celles de tout mouvement de spéculation contre le dollar, créant ainsi une tendance à la réévaluation des monnaies européennes les plus appréciées. Faute d'avoir défini des règles permettant d'agir, en fonction des circonstances, sur l'ampleur des fluctuations du dollar par rapport à l'ensemble des monnaies européennes, la Communauté a exposé certains de ses membres au risque de tensions insupportables. Certes, les instituts d'émission étaient capables de s'informer de leurs actions, et éventuellement de leurs intentions, mais ils n'étaient pas en mesure de négocier, au jour le jour, l'attitude commune à l'égard du dollar qui seule eût pu permettre de parler d'un flottement concerté et qui aurait, en les égalisant, rendu plus acceptables les tensions imposées par l'accord sur le rétrécissement des marges.

.../...

La cause fondamentale

30) Il faut en résumé conclure que les éléments externes ont joué un rôle dans l'échec du début d'union économique et monétaire européenne, mais ce rôle n'était pas fondamental. Si ces éléments n'avaient pas joué, l'Union économique et monétaire européenne aurait peut-être enregistré des débuts moins heurtés. Mais sauf les conditions qui viennent d'être mentionnées ci-dessus, la construction ébauchée serait restée fragile et surtout les limites à son développement seraient bien vite apparues évidentes. Cela tient à la nature même des mécanismes mis en place, à leur incapacité à s'adapter rapidement à des situations éminemment changeantes, à leur impuissance à distinguer l'intérêt de la Communauté de la somme des intérêts nationaux.

Il en aurait été autrement si certaines dispositions institutionnelles nouvelles avaient été prises.

31) a) On aurait pu créer un organe, investi de pouvoirs propres et agissant en fonction des intérêts d'un système européen de paiements, chargé notamment de :

- fixer le cours communautaire du dollar;
- veiller à la coordination véritable (c'est-à-dire consultation préalable et non simple information à posteriori) des interventions des banques centrales;
- autoriser les aménagements nécessaires temporairement;
- proposer un dispositif de contrôle des mouvements de capitaux à court terme entre l'Europe et les pays tiers et surveiller sa mise en oeuvre.

32) b) Mais le progrès sur cette voie est conditionné par une réforme profonde des mesures prises depuis 1972 pour assurer la coordination des politiques économiques internes, notamment de la politique du crédit et de la politique budgétaire. Une conjoncture plus homogène ainsi que la politique conjoncturelle qui doit permettre de la réaliser exigent une double coordination celle du développement et du financement des

.../...

dépenses publiques et celle du développement et du financement des dépenses privées. La liberté des mouvements de capitaux dépend des mêmes conditions.

Le rapport Werner avait mis l'accent sur une conception claire des politiques à suivre dans la phase finale de l'Union économique et monétaire et des organes communautaires chargés de les mettre en oeuvre. La Résolution du Conseil des Ministres de 1971, comme indiqué ci-dessus, n'a pas repris ce point. Là se trouve une raison principale d'échec de l'harmonisation des politiques économiques et de la lutte commune contre l'inflation.

Les procédures de consultation devraient, pour être efficaces, déboucher sur une instance de décision capable d'infléchir, dans l'intérêt général, la conduite de la politique économique de chaque Etat membre. Cela n'est possible qu'au prix d'une modification du contenu actuel des traités. L'expérience montre qu'il ne serait pas suffisant, à cet effet, d'introduire la règle de vote majoritaire au niveau du Conseil. Pour que des décisions majoritaires puissent être imposées aux Etats minoritaires, il faudrait encore que ceux-ci puissent compter sur une large solidarité financière à l'échelle de la Communauté.

33) c) Il n'est en effet pas possible d'imposer à l'un des membres de la CEE des décisions contraires à ses intérêts économiques immédiats ou susceptibles de l'exposer à des difficultés politiques internes, si cet Etat ne peut compter sur une solidarité financière effective de ses partenaires, permettant de répartir, de façon équitable, entre tous les membres de la Communauté, les sacrifices imposés par l'intérêt général. Pour que les pays de la CEE puissent suivre une ligne commune en matière économique et monétaire, il est indispensable de pouvoir procéder, par l'intermédiaire du budget de la CEE, à des transferts importants de ressources réelles.

C'est en définitive, une mutation de caractère politique et institutionnel qui aurait été nécessaire pour surmonter les difficultés

.../...

rencontrées par l'Union économique et monétaire depuis 1971. Les chefs d'Etat ont pris conscience de cette nécessité lorsqu'ils ont évoqué la création d'une véritable Union européenne. Mais ils n'en ont pas précisé le contenu et en ont renvoyé l'étude à une date ultérieure.

34) Cependant, si l'on veut éviter que l'Union économique, et peut-être même la politique agricole commune et l'Union douanière, ne régressent à l'avenir, il est probable que le saut doit être effectué dès maintenant. Il pourrait être limité à trois secteurs bien déterminés qui n'exigent en aucune façon une union politique complète.

- Le premier concerne les responsabilités des banques centrales qui, tant dans le domaine des changes que dans celui des taux d'intérêt, devraient être soumises par le moyen d'une banque centrale européenne à une supervision communautaire dans la mesure nécessaire à la réalisation des objectifs de l'Union économique et monétaire.
- Le deuxième concerne surtout les politiques budgétaires qui, au double point de vue de l'importance des masses budgétaires et du mode de financement des soldes, devraient également être soumises à une supervision communautaire par le moyen d'une instance de décision communautaire en matière de politique économique et qui sera nécessaire beaucoup plus rapidement qu'on le pensait à l'origine.
- Le troisième concerne le budget de la CEE qui, doté de ressources propres élevées, devrait, sous le contrôle d'un Parlement européen, être l'instrument d'une égalisation des charges que la réalisation de cette union impose aux Etats membres.

35) Ces mesures semblent néanmoins nécessaires pour relancer non seulement l'Union économique et monétaire, mais par l'intermédiaire de celle-ci, également la Communauté dans son ensemble. La stagnation, qui a commencé vers la fin de la période de transition, était due avant tout à la carence de la coordination des politiques conjoncturelles et monétaires. Toutefois, la réalisation d'un marché communautaire absolument libre et l'élaboration d'une politique structurelle commune se sont également heurtées à une résistance souvent opiniâtre. A mesure que

.../...

l'attention se concentrerait sur les problèmes économiques et financiers, on enregistra même de moins en moins de progrès dans ces deux secteurs. Rien ne permet de penser qu'il en sera autrement à l'avenir si de meilleures perspectives ne devaient pas s'ouvrir à l'Union économique et monétaire.

Cette dépendance est double. Si essentielles que soient les réformes examinées plus haut pour la relance de l'Union économique et monétaire, son développement futur qui, sans aucun doute, n'en restera pas moins parsemé d'embûches, sera également tributaire de l'activité qui sera déployée dans les autres secteurs de l'Union économique. Enfin, il est difficile d'imaginer une coopération européenne plus active dans le domaine de la politique étrangère si des progrès sensibles ne sont pas réalisés dans celui de l'intégration économique. Pour toutes ces raisons, un nouveau départ mieux préparé de l'Union économique et monétaire est le seul moyen d'atteindre l'objectif majeur que constitue l'Union européenne, que les Chefs d'Etat ou de gouvernement réunis à Paris en 1972 ont inscrit au programme de la prochaine conférence au sommet prévue pour 1975.

Document rédigé par L. CAMU

Document written by L. CAMU

1. La recherche d'une unité de compte européenne par les opérateurs

LA RECHERCHE D'UNE UNITE DE COMPTE EUROPEENNE
PAR LES OPERATEURS

Louis Camu, Président
de la Banque de Bruxelles

L'abandon du régime des parités fixes, les fluctuations désordonnées des cours des changes, et en particulier le délabrement récent du dollar, ont considérablement accru les risques liés aux placements en devises étrangères, et donnent ainsi un regain d'actualité aux techniques de couverture contre les risques de change.

Pour les opérations commerciales, les méthodes ordinaires, basées sur le recours aux marchés à terme des devises suffisent généralement. Mais pour les placements en obligations, il faut rechercher d'autres formules, en raison de la durée plus longue de ces opérations, que ne peuvent couvrir les marchés à terme : c'est ainsi que sont nées les différentes "Unités de compte" utilisées depuis 1961 dans des émissions des secteurs public et privé. Trouvaient-elles leur place dans les efforts d'intégration monétaire européenne, à l'instar des unités de compte officiellement employées dans le cadre de la politique agricole commune, et constituaient-elles une réponse valable des opérateurs devant l'échec des politiques européennes ? Peut-on y trouver, moyennant les modifications appropriées, l'esquisse d'une solution au problème actuel du placement et du recyclage des pétrodollars, que la mauvaise tenue du dollar risque de porter à s'investir en DM., en francs suisses ou en francs français, éventuellement contre le gré des autorités monétaires de ces pays ?

I.- Résultats des tentatives d'intégration monétaire

Ces résultats sont - dans les faits - décevants.

Entre le premier plan d'unification monétaire, écrit par M. Raymond Barre en 1969 et la fin 1974, on a enregistré plus de changements de parités officielles déclarées (et de variations des cours entre monnaies de la C.E.E. plus amples) qu'entre 1958 et 1968.

c'est-à-dire pendant les premières années de l'existence du Marché Commun. Le Mark allemand, le florin, le franc suisse et le franc belge ont été réévalués, tandis que se dévaluaient la livre sterling, la lire et le franc français. Ces trois dernières monnaies sont restées en fait dans l'orbite du dollar et ont abandonné l'appartenance à la zone monétaire européenne, rétrécie à une zone Mark, à laquelle s'attachaient quelques monnaies extra-communautaires.

En 1970, la Commission Werner rédigeait un rapport comportant un calendrier dont l'aboutissement était prévu pour 1980. Ce plan, qui comportait notamment l'abaissement progressif des marges de fluctuation, de façon "définitive et irrévocable" fut adopté le 9 février 1971. Il n'excluait pas la modification des parités ou taux centraux dans certains cas graves. En mai de la même année, la marge de fluctuation du DM., puis du florin, sautait comme un verrou trop faible.

En avril 1972, un nouvel accord, toujours pour la réduction des marges de fluctuation, et une concertation sur les opérations de secours mutuelles entre banques centrales, était conclu. En juin de la même année déjà, la livre décrochait, la France renforçait le contrôle des changes, la couronne danoise prenait du champ.

En 1974, le flottement des trois monnaies parmi les plus importantes de la C.E.E. a détruit l'illusion de cohérence et de stabilité de l'ensemble. Même à l'intérieur de la concertation dénommée "serpent", la possibilité de modification des taux centraux entretient une inquiétude, qui rend le système fragile.

La limitation déclarée des mouvements de change continus n'apporte guère de confiance ou de garantie, lorsque l'on sait que des mouvements discontinus plus substantiels sont possibles. Au moindre indice ou commentaire indiquant cette possibilité, le risque de change augmente et avec lui la chance de voir se réaliser la modification du taux prévue.

Le scepticisme des opérateurs aurait pu être atténué par l'existence d'un organisme central, le "Fond Européen de Coopération Monétaire", (FECOM), qui eût disposé de moyens suffisants pour intervenir en monnaies de pays membres de la Communauté. Mais cet organisme est anémique, et même ses interventions utiles n'inspirent aucune confiance en raison de l'étroitesse de ses moyens. Il en va de même des concours à court terme entre Banques Centrales.

Aujourd'hui, le zone monétaire du Nord - la zone DM. - ne correspond plus à la C.E.E. et sa monnaie dominante est trop forte pour faire croire à la stabilité.

Par ailleurs, la politique monétaire commune n'a apporté aucune amélioration à la liberté de circulation des capitaux, ni même à la coordination des limitations imposées à cette liberté. Aucune distinction ne fut faite en faveur de la libre circulation intra-communautaire, et les suspicions ou spéculations d'origine extra-communautaire ont pu amplifier les sentiments d'instabilité déjà suffisamment gênantes à l'intérieur de la C.E.E. La mise en oeuvre d'activités financières communautaires (budgets, fonds divers, gestion d'instruments communs) sur des bases rationnelles, devient elle-même une impossibilité depuis plusieurs années.

La conclusion est évidente ; les opérateurs estiment que l'intégration monétaire de la zone C.E.E. - zone optimale pour toutes les raisons décrites par Mundell - n'existe que dans l'Europe des discours.

II.- Les solutions pratiques trouvées par les opérateurs

La remise en question du dollar - la monnaie la plus utilisée en matière d'euro-émissions et la clé de voûte du système - et les échecs des projets d'unification monétaire européenne, ont incité les banquiers à imaginer des formules susceptibles de procurer à l'investissement international une protection contre les risques de change. Cette protection a pris la forme d'unités composites englobant les principales monnaies européennes, ou d'aggrégats de devises nationales de la Communauté.

L'unité de compte (U.C.), créée en 1961 par la Kreditbank, après de longues études au sein de l'Institut International d'Etudes Bancaires, constitue une adaptation originale au domaine privé d'unités utilisées dans les relations entre Etats, d'abord dans le cadre de l'Union européenne des paiements, puis au sein du Marché Commun. La formule initiale utilisée en 1961 reposait en effet, sur les monnaies des 17 pays membres de l'U.L.P. à présent dissoute. La formule modifiée, utilisée depuis le début de 1973, et fort proche de la notion de l'unité de compte agricole de la Communauté, est fondée sur les monnaies des 9 Etats membres de la C.E.E., pour autant qu'elles remplissent deux conditions : a) avoir une parité ; b) voir ses cours sur les marchés des changes maintenus à l'intérieur des marges de fluctuation établies par le Conseil

des Ministres de la C.E.E. (c'est-à-dire à l'intérieur du serpent). Si ces monnaies sortent du serpent ou n'ont plus de parité, elles perdent automatiquement le statut de monnaie de référence. La conséquence pratique, à l'heure actuelle, c'est que le franc français, la lire, la livre sterling et la livre irlandaise ont perdu ce statut, et que l'U.C. est momentanément liée aux cinq monnaies restantes. En cas de flottement de toutes les monnaies (hypothèse d'abandon du "petit serpent") l'U.C. serait assimilée à la plus stable d'entre elles, depuis la date d'émission jusqu'au moment où il y aurait à nouveau des monnaies de référence.

En dehors de quelques différences dans l'application, les techniques des deux formules d'U.C. sont identiques.

L'U.C. est égale à un poids de 0,888761 gramme d'or fin et peut ainsi être exprimée dans les monnaies participantes par le biais des définitions officielles ou des taux centraux. Les relations entre U.C. et monnaies la composant, existantes au moment d'une émission en unités de compte, constituent les "parités de base" : une modification de la définition-or de l'U.C. ne peut intervenir que si deux conditions sont simultanément remplies : toutes les monnaies ont de nouvelles définitions officielles différentes de leurs parités de base, et une majorité de modifications (les deux-tiers dans la première formule, la majorité des 5 monnaies restantes dans la seconde) interviennent dans le même sens. C'est le plus petit changement constaté dans le groupe majoritaire qui sera appliqué à l'U.C.

L'application de ces règles dans la pratique signifie que l'U.C. est restée inchangée pour tous les emprunts, sauf les trois premiers (2 emprunts SACOR et un emprunt de la Banque Communale de Norvège, qui étaient soumis à des règles spéciales de modification).

La résistance au changement de l'U.C. est donc telle que le porteur d'obligations libellées en unités de compte n'y trouve une protection que dans des conditions bien précisées : c'est essentiellement l'investisseur dont la monnaie nationale est faible qui y trouve une protection (contre la dévaluation de sa propre monnaie) ; en revanche, pour un investisseur dont la monnaie est forte, une réévaluation se traduit par une diminution de ses revenus exprimés dans sa monnaie nationale.

L'investisseur dont la monnaie nationale a été réévaluée ou dévaluée, se trouve donc dans une situation identique à tout investisseur en devises étrangères. Par contre, le risque lié à une modification de parité d'une monnaie étrangère se trouve limité, étalé en principe sur les neuf monnaies européennes.

Le prêteur trouvait dans cette formule un avantage psychologique, et l'emprunteur sophistiqué un avantage de taux : elle eut donc un certain succès dans le domaine des émissions internationales, puisqu'elle fut employée, entre 1961 et janvier 1975, dans 54 émissions publiques totalisant 729 millions d'U.C. (équivalent à 877 millions de dollars). Des entreprises publiques et privées de pays aussi différents que le Danemark, l'Afrique du Sud, l'Autriche, la Norvège, l'Irlande, l'Italie, la France, le Portugal l'ont employée. Ce qui prouve l'étendue géographique du besoin de stabilité. Mais le total de ces émissions reste insignifiant (3,2 % seulement) par rapport à celui des émissions internationales en euro-dollars ou en euro-devises qui a atteint quelque 33 milliards de dollars.

Conscients des limites de la protection offerte par l'U.C., les banquiers imaginèrent une autre Unité Monétaire Européenne l'E.C.U. La différence essentielle réside dans le fait que pour un emprunt libellé en E.C.U., les parités de base existant au moment de l'émission restent valables pendant toute la durée de l'emprunt. L'E.C.U. ne constitue rien d'autre qu'une application spécifique de la formule classique d'option de change, rattachée à une nouvelle dénomination. L'investisseur ne se trouve plus seulement protégé contre une dévaluation de sa propre monnaie, mais il profite également de toute réévaluation d'une des monnaies de référence.

Les parités utilisées étaient celles appliquées entre les 6 monnaies de la C.E.E. et le dollar au moment où l'émission avait lieu;

la C.E.E. ne comptait encore que 6 membres. Au cas où de tels emprunts seraient émis aujourd'hui, les neuf monnaies de la C.E.E. devraient normalement être prises en considération.

L'E.C.U. fut utilisé quatre fois, et détail amusant, par le Brésil et la C.E.C.A., pour un total de 165 millions de dollars. Comme le libre choix de la monnaie est donné au souscripteur, tant pour le paiement des intérêts que le remboursement du capital, il s'agissait d'une formule coûteuse pour le débiteur, qui devait assumer, à plein, toute modification du taux de change d'une monnaie de référence. A ce titre, un emprunt en E.C.U. constituait de sa part un acte de foi dans la stabilité des parités à l'intérieur de la C.E.B. C'est sans doute pourquoi cette formule fut rapidement abandonnée ; et aussi longtemps que sera maintenu le système des monnaies flottantes, il n'y a pas lieu de s'attendre à de nouvelles émissions en E.C.U.

Par contre, les titres libellés en E.C.U., négociés sur le marché secondaire, font largement prime : les cours ont déjà considérablement devancé les événements monétaires ; de ce fait, le gain de change pour un investisseur désirant aujourd'hui entrer dans le marché est fortement limité.

Le European Composite Unit ou EURCO, également fondé sur les 9 monnaies de la Communauté, est composé d'un nombre fixe d'unités de chacune d'entre elles. La valeur de l'EURCO est calculée en fonction des cours effectifs du marché, et se modifie par conséquent d'un jour à l'autre.

Etant un cocktail de 9 monnaies, son originalité, comme dans un cocktail, réside dans le dosage. Dans sa composition, on a essayé de tenir compte du poids respectif des pays dans l'économie européenne (commerce extérieur et PNB) tout en augmentant quelque peu la part des monnaies "fortes" en vue de renforcer l'attrait de la formule.

- Pondération du DM	29 %
du FF	20 %
de la £ sterling	15 %
de la lire ital.	10 %
du florin néerl.	11 %
du FB	10 %
de la couronne D.	3 %
de la £ irland.	1 %
du F.R. luxemb.	1 %
	<u>100 %</u>

Cette dernière particularité a rendu l'EURCO difficilement acceptable politiquement par les autorités officielles des pays dont la monnaie était jugée faible, et imposait des changements répétés de la pondération, déroutantes pour le marché, chaque fois que les spéculateurs modifiaient leur attitude quant à la force ou à la faiblesse des monnaies de référence. En outre, dans cette formule les conséquences de modifications de la parité d'une monnaie individuelle n'étaient pas éliminées. Les investisseurs des pays dont les monnaies sont peu ou sous-représentées courent presque intégralement le risque de réévaluation de leur propre monnaie.

Les investisseurs importants (institutionnels) ont quelque peu boudé un cocktail de monnaie qui leur était imposé alors qu'ils étaient en mesure de réaliser, en diversifiant leurs placements à leur gré, un dosage de leurs investissements répondant à leur propre jugement. De plus, les difficultés posées au marché secondaire ont également constitué un frein à la généralisation de l'EURCO (sa valeur varie chaque jour, sur base des cours pratiqués à la Bourse de Luxembourg et la prévision d'évolution de cette "valeur abstraite" parce que composite, nécessite un travail de réflexion évidemment plus compliqué que s'il s'agissait d'une prévision sur la valeur future d'une seule monnaie).

Les investisseurs ont donc accueilli cette formule avec des sentiments partagés : trois émissions ont vu le jour - deux pour la Banque Européenne d'Investissements (B.E.I.) - pour un montant total de 110 millions d'EURCO, équivalant à 138 million de dollars.

Au-delà des formules déjà appliquées dans des émissions internationales, d'autres propositions d'unités de compte sont dans l'air, qui tentent de pallier les inconvénients des systèmes existants.

Le Professeur Triffin, de l'Université Yale, a lancé l'idée de l'EUROPA, qui combinerait les avantages de l'U.C. seconde formule et de l'EURCO, en évitant leurs inconvénients : il la définit comme un cocktail de monnaies, mais avec une pondération permanente. Elle ne varierait pas chaque fois qu'une seule monnaie s'apprécierait ou se déprécierait, mais sa valeur courante resterait équivalente à celle de la monnaie dont le cours effectif de

marché serait resté stable ou aurait bougé le moins. Calculé de cette manière, l'EUROPA maintiendrait, par définition, le maximum de stabilité vis-à-vis des monnaies de la Communauté prises dans leur ensemble.

L'adoption d'une unité de change communautaire paraît particulièrement opportune au moment où la Communauté envisage d'émettre des emprunts internationaux, notamment pour recycler les pétrodollars. On aurait le choix entre 17 formules différentes qui ont été analysées, entre autres, dans le rapport du Comité des Onze experts auprès de la Communauté, réunis en 1973. Parmi ces différentes propositions, la préférence des théoriciens va à une unité de compte qui conserverait un pouvoir d'achat constant.

Cette idée est notamment avancée par Monsieur Jacques Riboud, qui propose, sous le vocable d'EUROSTABLE, une formule nouvelle, consistant en un agrégat des monnaies de la Communauté et qui posséderait la propriété de maintenir, à travers le temps, la constance du pouvoir d'achat des monnaies de référence. Techniquement, les taux de conversion des monnaies européennes en EUROSTABLES seraient calculés chaque jour, de manière à respecter les rapports entre eux des taux de change de ces monnaies nationales, tels qu'ils résultent des marchés. En même temps, on ferait en sorte que le même nombre d'EUROSTABLES permette de se procurer un "panier" européen constant de biens et de services.

Cette idée figure également au nombre des propositions faites récemment par le Professeur Triffin, qui envisage la possibilité d'émettre des obligations indexées sur le coût de la vie ou sur un "panier" de matières premières ou de produits manufacturés importants.

III.- Conclusions

Les efforts des opérateurs et des banquiers pour trouver des solutions pratiques aux problèmes posés par le retard d'intégration monétaire n'ont guère été ratifiés par les marchés. Le dollar domine toujours par les volumes traités tant dans les émissions

internationales à long terme que dans les crédits financiers à moyen terme, qui tendent aujourd'hui à en prendre le relais.

Néanmoins, le succès partiel de l'U.C., de l'E.C.U. et de l'EURCO mérite d'être retenu, face au manque de soutien officiel, gouvernemental ou communautaire. L'approbation du souverain a fait défaut, et le support courageux de deux grands vassaux - la C.E.C.A. et la B.E.I. - n'a pas suffi, dans un climat d'incertitude monétaire grandissant, à créer l'adhésion du public.

La condition de réussite d'une unité de compte européenne est donc sa consécration par la C.E.E. elle-même : une simple déclaration à cet égard est insuffisante ; il est nécessaire qu'une formule précise soit adoptée par la Communauté tant pour ses opérations internes (budget, agriculture (FECOM)) que pour ses relations financières externes (emprunt communautaire, par exemple). C'est la Communauté seule qui peut cristalliser la définition de l'unité de compte et en généraliser l'emploi.

L'actuelle faiblesse du dollar, ou son instabilité, et l'importance du problème du recyclage des pétrodollars ajoutent aux chances de voir se dégager une unité de compte européenne. Non seulement, elle se substituerait à cet étalon-fantôme, ce que tout le monde souhaite, y compris les américains eux-mêmes, mais elle transcenderait les monnaies européennes existantes, ces monnaies nationales concurrentes qui, par calcul ou par faiblesse, s'effacent lorsqu'il est question de leur faire jouer le rôle d'instruments de réserve.

Quant à l'opinion publique, elle accueillerait mieux qu'aujourd'hui une Europe dont la monnaie serait plus stable, donc immunisée en quelque sorte contre l'inflation, cette maladie angoissante qui n'épargne aucune monnaie.

Document rédigé par I. FOIGHEL

Document written by I. FOIGHEL

1. The Institutional and Legal Problems in connection with an External Borrowing and an Exchange Stabilization Fund for the Community

The Institutional and Legal Problems in connection
with an External Borrowing and an Exchange Stabilization
Fund for the Community

The creation of an Economic and Monetary Union as a part of or in connection with the EEC has been outlined in the Werner-report based on the outlook possible at the end of the 60es. The Werner-report includes a design for the decision-making process mainly based on annual surveys, and decisions made by the Council, the Commission and the Committee of Governors of the Central Banks.

The Werner-report indicates new institutions but keeps

the power of the decision-making institutions - at least as far as the main suggestions are concerned-inside the scope of the Treaty of Rome

On the other side the suggestions made have not proven very effective, and the political backing and thereby the will of the Council to make decisions and to implement the ideas of the Werner-report has been lacking.

This has created the wish also from a legal point of view to try to suggest new designs for institutions with power different of the power vested in the existing organs thereby to try to re-vitalize the notion of strengthening the European cooperation in the economic and monetary field. By considering such a project it has to be born in mind, however:

- 1° that the political climate in Europe does not seem favourable to alterations in the Treaty of Rome,
 - 2° that the political development in the member states in connection with the major economic problems facing these states today and in the foreseeable future makes it unlikely that the governments will be ready or able to accept decisions on major political issues made by organs completely outside the ordinary national political establishments. Of course the political development in the international economic field also act as a catalysator for the opposite approach i.e. a more European solution of the national economic and monetary problems. However it is at least doubtful whether the necessity of cooperation outweighs the political resistance against such cooperation.
-

The problem of overcoming the political doubts and hindrances necessitates in any case a clear definition not only of the goals or the objectives which should be achieved, but also a clear definition of the decision-making process which may be a condition for the achievements of the defined goals.

It may however be pertinent to make two observations:

- 1) While the description of the necessary institutions and the formulation of the procedures they should follow is a legal task, it goes without saying that the technical (legal) frame for European cooperation

might in a decisive way influence the outcome of the cooperation. It is not only a question of efficiency or non-efficiency, it is mainly a question of the substance of the decisions. This means that before a legal frame can be suggested, the political and economic goal should be well-defined and agreed upon.

2) Even if the overriding political goal is well-defined, the implementation of such a goal leaves a number of options as to

(A) the subject-matter for the concrete decisions

(B) the organ which should make the decision

(C) the competence or the power which - in the decision-making process at large - should be vested in the organ.

Even if it is possible from an analytic point of view to make a distinction between (A) subject-matter, (B) organs and (C) competence, there is a close and natural inter-relation among (A), (B) and (C). If it is decided to create a Balance-of-Payment Fund or an European Energy Board or a new monetary system, a "EUROPA", the choice in the institutional and legal respect is of course limited. On the other hand if a European EMU has to respect the widest self-determination of all the member states, then the competence of the organs has to be rather modest and a

number of subject-matters is by this proviso excluded from regulation.

In the report of the Study Group it is proposed that an External Borrowing and an Exchange Stabilization Fund for the Community should be established. It is further suggested that the operations of the Fund should be carried out by the European Monetary Cooperation Fund, which has existed for the past two years. The EMCF, however, has had no competence to make decisions on any substantial operational functions.

In conducting the operations of the proposed Exchange Stabilization Fund the following suggestions might be appropriate:

- 1) An independent agency should be set up, consisting of experts representing the central banks and/or the member states governments. The agency should for obvious reasons be small and should be able to meet regularly. It could be a new agency or a group of members of the Monetary Committee or the Committee of the Governors of Central Banks.
- 2) The agency should have competence to make binding decisions. The decision should be taken with majority vote.
- 3) A statute for the agency should be adopted, describing

the formal and substantial competence.

- 4) As the decisions taken by the agency are of great importance to the member states, the Council of Ministers should give concrete and direct instructions to the agency. These instructions should be adopted by the Council in accordance with the ordinary rules of the Treaty as understood and applied by the Council.

- 5) The agency should normally only be entitled to act within the scope of the instructions from the Council. If, however, the Council does not adopt any concrete instructions, the agency can make its decisions according to the statutes for the agency describing in general terms the substantial competence of the agency.

By this system of combined and shared competence between the agency and the Council, it is secured that the Council of Ministers has the decisive influence on the concrete decisions of the agency if the Council so wishes. On the other hand, if the Council is not ready to act or is not able to agree, it is secured that the agency can make the necessary decisions.

ISI FOIGHEL
Professor, dr. jur.
University of Copenhagen

March 6, 1975

Documents rédigés par F. FORTE

Documents written by F. FORTE

1. A Fiscal Framework for European Union
2. Energy scenario and European Energy Institutions

A FISCAL FRAMEWORK FOR EUROPEAN UNION

by Francesco Forte

1. Considering the matter from a purely theoretical point of view, the most obvious public finance item for a European Union (EU) is public expenditure on defence or military expenditure and policy related thereto. Military expenditure is a "collective good" whose benefits (if any) accrue to the generality of individuals without a plausible way of measuring the amount obtained by a single person or business entity, and whose effects arise in places distant from those where the services are supplied. Thus one cannot argue about the correspondence between amount paid and benefits enjoyed by a given area (as so often occurs with the EEC agricultural programme) nor can one argue about the fairness of the regional distribution of the services (as occurs with aid to underdeveloped regions). Military expenditure implying public order is conditional to all other activities: therefore it is appropriate that it be undertaken by the top tier of administration, which establishes the framework for the lower tiers and for any other power, public or private. In fairness, military expenditure is also one of the most controversial kinds of public goods: some may consider as beneficial particular units of service which others consider most damaging. So that, even if, technically speaking, on the supply side this could be considered a good with a very large area of diffusion, or the most collective good of all, on the demand side one requires rather homogeneous social groups to make this supply acceptable. We may argue that conflicts of interests run across the countries rather than between them. But it should be recognized that to surrender autonomy in this area is a very delicate thing in which national identity may be very important, to represent homogeneity. But if we assume that Europe wants to be united, we must also assume a rather high degree of homogeneity from the point of view of military public goods (or evils). It should be added that military expenditure implies power for the supplier more than any other public expenditure: clearly it would enhance the power of the European Union (EU) more than any other public finance activity.

Procurement for it would allow European industrial and technological cooperation to develop.

But in proceeding from theory to practice in this case there are several obstacles, both historical and current. I do not need to list them here. I only want to stress that if military expenditure became European, a solid foundation for European public finance would be built, and the remaining issues would become much easier.

2. Assuming that this cannot be done, we must adjust our reasoning to a second-best world, where EU public finance must rely on less cohesive matters.

In my opinion, there are, however, areas where it can find important elements of cohesion: i.e. capital movements, investment, supply of labour. These lead us to consider four topics:

- a) jurisdiction of the EU in matters of profits taxation and perhaps of taxation of personal income derived from corporations;
- b) fiscal benefits in less developed regions of the EU and taxation of investments in congested industrial areas of it;
- c) public expenditure on unemployment and related contributions by the EU;
- d) direct investment by the EU of funds related to social insurance where reserves are required, such as industrial injury insurance and additional payments (perhaps of a voluntary kind) for old age and sickness insurance.

3. If jurisdiction is given to the EU in the field of capital investment, it seems logical that the entire corporation income tax should become a European tax, administered by EU and used for its expenditure. This could be the first "European Tax". Its revenue is now about 3 % of GNP and this could also be the size of the tax levied by the EU.

It is true that corporations are a phenomenon more relevant in certain nations and less in others. But in shaping the new European tax one may take account of this, at least to some extent, in defining the taxable subjects which do not need to be "corporations" in the narrow sense of the word. Needless to say, rates should be uniform in the various areas of the Union (except as indicated later under 4.). Uniformity of rules relating to the concept of income and to its assessment for this tax will

have important effects on accounting. Laws regulating corporations other than fiscal law could also be more easily unified; and mobility of corporations from one section of Europe to another enhanced. The new European monetary unit could be employed in paying this tax. Inspectors of the EU should check the assessment in each region, assuring uniformity of criteria and reliability of results. The entire matter of international aspects of corporation taxation will be dealt with by the EU vis-à-vis "domestic" (EU) corporations with interests abroad and foreign (non-EU) corporations with interests in EU territory.

I would like to stress that these proposals include EU jurisdiction over the treatment of dividends for tax purposes: obviously since this matter impinges on the basis of personal income tax, a dividing line must be found between the tax yield on dividends attributable to national governments (even if collected from the corporations) and the yield attributable to taxation of corporations i.e. to the EU. But in principle it is not difficult to find a dividing line: that part of the tax on dividends collected from corporations which is equivalent to that paid by undistributed profits should be considered as "corporation tax", and the withholding on dividends exceeding that rate should be considered as "personal income taxation". What is important here is that a unified regime should be adopted, whereby the tax treatment of all European residents in receipt of dividends would be identical while non-residents (of EU) would have to undergo another treatment (modifiable through international tax agreements).

4. The whole discussion on regional policies, at the EU level, so far has centred on the amounts of contributions to be paid and of benefits to be received by the various countries: i.e. has been a discussion on public finance as a weapon for income (or wealth) redistribution. As already pointed out by Professor Giersch in his report on Monetary Unions, there is another approach, which has to do with public finance as a weapon to promote efficiency, i.e. a better allocation of resources among areas, correcting market failures as to externalities.

Costs of investment in congested areas must be increased to take account of the "social costs" of these investments in terms of congestion, while investments in less developed regions must be encouraged by taking account of their "social returns" in terms of positive externalities. Here there is an area for "fiscal jurisdiction" of the EU both ways: i.e. for fiscal incentives and fiscal disincentives. And there is also an area for direct administration by the EU. Fiscal jurisdiction without direct administration may have superficial results and cause tension between the EU authorities and national authorities who have to follow the rules set by the former. So that, as far as possible, it appears wise to concentrate the regulatory power and the taxation/public expenditure powers relating to it in the same hands. The EU may discourage investment in congested areas through a licence tax (or property tax) levied on plant-on-plant and other installations set up there by business enterprises.

Whether this should be a franchise tax or a property tax is mostly a matter of terminology, since in both cases reference should be made to the physical impact of the real investment, graduating the tax according to the size and type of installation through general predetermined rules. But obviously here terminology has also institutional implications, since matters like property taxation might be thought to belong to other levels of government. What is important, in the case of a franchise, is that it should be a tax i.e. a price for social costs of congestion and not a "yes or no" authority, which would appear to be against the philosophy of the Rome treaty and too much of an interference by the superior authority in local activities. Corporation income tax rates could be reduced by the EU in respect of investments in underdeveloped regions. In addition, it could pay subsidies administered directly by it, to projects which have its approval: this would not wipe out the power of national governments to add other incentives of their own, but these obviously should follow certain agreed rules.

5. Social security contributions in principle should be entirely harmonized in the EEC area, not to distort the cost of labour within it. This harmonization, in my opinion, is more important than further value-added tax harmonization, because one may normally assume that value-added tax is mostly shifted forward in prices to final consumers and -unlike payroll taxes- does not interfere with costs in the various regions and sectors of activity. Some of the social security benefits however enter into real wages and may affect (in a downward direction) the price of labour.

It is therefore inappropriate to try to harmonize social security contributions without trying to harmonize also an important area of social security benefits. In the limiting case, one might think that the entire matter could be given to the EU, as regards both jurisdiction and direct administration: but this, while it may be a terminal objective, appears too ambitious a plan as a starting point. Differences in national systems here are very broad at present, particularly for health benefits, old age schemes and family allowances. What is even more important is that these differences reflect different socio-economic conditions and different historical trends in the labour movements. The areas left with which to begin to build a European social security system, therefore, are unfortunately marginal with respect to the massive and growing importance of this phenomenon. However they are not trivial. A first area where unification appears appropriate is that of unemployment charges and benefits: clearly with labour mobility within the EU and with the growing interdependence of the economies of the EEC, unemployment becomes a European issue, both as a structural and technological phenomenon and as a business fluctuations phenomenon, and is more and more related to migration flows of manpower. Rates of payroll taxation for unemployment social insurance are around 2 % with the exception of France (less than 0,5%) and the Netherlands (where it ranges from 1,2 up to 8%). Payments as a share of GNP are rather uniform and represent a low percentage with the exception of Belgium and the Netherlands, where they are more important. Systems are very different from country to country, but a general European system could be set up, allowing for

national or local supplements to it. In addition to contributions based on payrolls, money from the European Social Fund could be used to expand this policy which, in fact, would absorb some of the functions presently performed by that Fund, broadening and making more systematic the entire area of action and relating it to the policy for underdeveloped regions and for labour mobility.

6. The reasons for unification at the European level of industrial injury social insurance are very different from those relating to unemployment social insurance and policies. They have to do with the fact that here redistributive elements and sociological factors have minor relevance, while there are reserves to be invested, which may represent an interesting tool of European public finance and monetary action. Payroll contributions schemes here differ markedly: sometimes being uniform, sometimes differing according to the risks involved. But a unification of schemes does not appear too difficult: after all, where risks appear objectively more uniform a differentiation according to the degree of risk, does not change the distribution of the burden substantially. What is important is that reserves could be invested in "Europa" and, in any event, would increase the financial powers of the EU.

Another area of social insurance where unification may be deemed appropriate in connection with reserves policies is that of supplementary pensions schemes for old age and other causes of retirement from activity.

Supplementary schemes but not the basic ones, for two reasons: first of all because the basic schemes do not involve, in most cases, reserves; and secondly because they are too different from country to country (and from one category to another) and their unification would imply an enormous amount of redistribution. Obviously supplementary regimes exist already in the various countries, but they need not be abolished. They might be partially merged in the unified European system. And, very important to stimulate this development, benefits could be paid in European currency.

7. I would consider that the minimum quantitative basis for European public finance should be 5% of GNP in direct sources of revenue levied and administered by the EU. Corporation taxation, licences, social security payroll rates for industrial injuries and unemployment plus the exclusive right of Europa issue may give a yield reaching this level, together with external custom duties. Social security payments for supplementary pensions and the revenues derived from reserves related to them, plus revenues from other social insurance reserves (industrial injury) may help to maintain this percentage over time, compensating for falling receipts from custom duties.

To these "direct" sources of revenues, additional sources should be added in the form of a percentage of the yield of the value-added tax and, perhaps, direct contributions from the member countries. Another area of expansion of European public finance in future should be found in social security finance, making it increasingly European.

8. Furthermore it should be emphasized that "jurisdiction" in given fields of taxation (e.g. international agreements and the taxable basis of the main levies, such as those on business enterprises) and of public expenditure criteria, may be more important than specific administration of given taxes and expenditures. At present the EEC operates in these areas through guidelines and suggestions. In some areas, instead, it should have direct legislative powers; it should also have a general power to represent the EEC countries at the international level (not only custom unions, but also international tax agreements). This obviously implies a true European democratic legislative body, to which these powers should be given.

Industrial Injury Payments as % of Soc.Sec.Payments

	1970	1965
Belgium	4,6	3,2
France	4,6	5,1
Germany	3,5	4,6
Italy	3,5	3,1
Luxembourg	7,0	7,6
Netherlands		1,6

Unemployment Payments as % of Soc.Sec.Payments

Belgium	4,6	4,5
France	1,0	0,7
Germany	1,3	1,0
Italy	1,1	2,1
Luxembourg	0	0
Netherlands	4,5	3,5

Soc. Sec. Payments as % of GNP

Belgium	16,3	15,2
France	17,2	16,9
Germany	18,8	17,2
Italy	17,1	16,4
Netherlands	19,9	16,2

Unemployment Payments as % of GNP

Belgium	0,7	0,7
France	0,2	0,1
Germany	0,2	0,2
Italy	0,2	0,3
Netherlands	0,9	0,6

Corporation Tax Yield as a percentage of GNP

	1965	1971
Belgium	1,9	2,5
Denmark	1,3	1,0
France	1,8	2,1
Germany	2,5	1,5
Italy	2	2,1
Luxembourg	3,6	5,2
Netherlands	2,8	3,0
United Kingdom	1,8	2,9

ENERGY SCENARIO AND EUROPEAN ENERGY INSTITUTIONS

Report by Francesco Forte

1. What will happen

It is very difficult to forecast now the possible developments in the energy sector. Prices have not yet found their own stability level, and could still fluctuate wildly in the near future. Figures as those in the Memo on Medium Term Economic Aspects of the Energy Crisis for the community therefore should be considered provisional. So could quantities produced in the Middle East: for some producers (i. e. Saudi Arabia) the inducement to produce decreases with the increase in prices. Too much depends now on the political decisions that will be taken both by producer and consumer countries, and by the U. S. However, it will be useful to put down some tentative points which seem now to be the inevitable outcome of the present situation.

a) Energy will be dear in Europe, possibly dearer in the U. S. in spite of a tendency to some reduction of oil price possibly in the next twelve months ⁱⁿ or the next years. This will have consequences of some importance on the ability of some European industries (especially petrochemicals and heavy industry) to compete on the world market, particularly with U. S. industries.

b) Oil will continue to satisfy the largest part of Europe's energy needs, although high prices will bring old sources, like coal, and, perhaps new ones, to the competitive threshold. Nuclear energy will certainly receive a substantial boost but will not be able to change the situation at least for the foreseeable future.

c) The Middle East will not be challenged in its rôle of prime supplier of oil for European consumption. North Sea and other possible developments will not change the basic dependence of Europe upon Middle East oil.

d) Europe will be embarrassed by balance of payments problems for many years to come. The foreign accounts situation will be tight even in the Eighties, when it is hoped that Europe will balance its books. For this reason, Europe will have less room for manoeuvre in its relations with poorer countries and with the U. S.; the dollar might enjoy a long period of unchallenged supremacy. (See Memo on Medium Term Economic Aspects of Energy Crisis, pag. 33-36).

e) It will not be easy to dispose of the producer countries' money, both because of their limited "absorption capacity" and the difficulty of giving them opportunities for guaranteed investment. This will create monetary fluctuations and hot money runs, and may add to Europe's embarrassment.

f) The economies of the various European countries will adjust differently to high prices, energy shortages and balance of payments problems and will thereby be driven along different and diverging paths.

2. Consequences for the European Economy

The tentative nature of these points should not dissuade us from discussing some of the consequences of the new situation on the European economy. We have already included in point 1 a) Europe's reduced competitiveness, and our subsequent remarks will be of a general nature.

a) It will be more difficult to manage the economy, and specially to control inflation. The concept that the modern economy can be "fine tuned" at the pleasure of governments will be increasingly disproved. The high prices of energy and other imported raw materials

will add to built-in inflation for a number of years. The prolonged balance of payments deficit will add some inflation particularly for weak currency countries with flexible exchange rates (but also for those affected by them, who will have an easier life, in case of prices increases); and monetary disorder will provide additional stimulus or/and permissivity to it.

b) High energy prices will influence the location of industry, and broadly speaking, of economic activity. Investments chosen on the "cheaper energy" basis will lose this advantage, and areas long considered unfavorable (i. e. some coal regions) will regain a much better position. The return to coal - even if to be welcomed - will in fact create a lot of problems (transportation, pollution, etc.) which until now did not exist or were not very relevant.

c) There will be an effort to reduce the demand for energy through more efficient consumption in industry, in transport, and in the home. New energy saving processes will require heavy investment, and a well planned effort on a very broad basis. The ability to contain total energy demand without reducing production will depend upon the success of this effort, both in the energy sector (i. e. electricity production) and in industry.

d) In order to reduce or offset the weight of oil imports on the balance of payments, European countries will try to increase exports, both in general and to oil producing countries, with the danger of "beggar my neighbour" policies such as competitive devaluations and competitive deals with oil countries.

e) High energy prices will spur exploration for new reserves in European countries and off-shore, and may bring back previously non-commercial deposits to production. This may coincide

with a world-wide boom in exploration for new oil and coal reserves. A new impetus will also be given to applied scientific research on new energy sources or on new ways of using the old ones.

3. Areas of possible European action

The points listed in paragraph 2) define areas of European action. They indicate possible lines of development of EEC action in new areas: which is particularly important, taking into account the fact that it is easier to make the EEC responsible for new policies than for old ones that have already been pursued by national governments. Point 2a) covers very wide issues, which - in fairness - were with us even before the energy crisis: they have been much aggravated and made topical by it. The nature of the problems makes it very difficult to give hints on what specific policies Europe should follow (this would be any way outside the scope of this paper). Suffice it to say that the need for European economic control will become stronger and stronger, and that the very chance of avoiding a major crisis may eventually depend on it.

Point 2b) too deals with a problem that is already here. The geographical distribution of economic activity in Europe is far from satisfactory, with congested areas which keep on developing and poorer areas which are not able to better their position. Left to the free working of the market, the adjustments required by dearer energy will create new and more intractable imbalances. There is a lot to be said in favour of European territorial planning to correct the present situation, and at least prevent it from getting worse.

The return to coal will increase the scope of a European energy policy. On the other hand it will also give fresh strenght to the attraction of the traditional industrial areas of Northern Europe, due to the fact that transport costs are higher for coal than for oil. This may require a European transport policy with differential rates for different areas. It may be difficult to give an indication as to what policy to follow. It is enough for the moment to state the issue.

Point 2c) and 2e) relating to the energy sector proper, are of extreme importance, and are a great challenge to the European economy. The search for new sources or new methods, and the drive to greater efficiency in energy consumption, will require large capital outlay which could help considerably to keep global demand at a satisfactory level. Great store should be set on these programmes, as it is hoped that they will not only reduce energy demand, and so imports, in the short run, but also increase Europe's independence in the long term. Obviously, it would be far-fetched for the Europeans to speak, as the Americans do (with some additional reason) of self sufficiency; but certainly a coordinated effort on the points quoted may bring great rewards. In this field, it is not only necessary to coordinate national programmes, if any; there is a genuine need for a common approach and institutional guidelines at the EEC, whereby European countries could pool their efforts and achievements.

Point 2d) has been very much discussed since the energy crisis started, and so we need not delve into it. It is obvious that a common stand (as it seems now beginning to develop) will greatly increase Europe's political credibility in the producer countries' eyes and immensely facilitate the difficult task of creating and

sustaining new flows of exports towards these countries. As the bulk of the new exports will be in capital equipment, the pooling of productive capacity, technical knowledge and organisational experience will be necessary if projects of sufficient size are to be launched, financed and realized. The financing side, with the possibility of creating joint institutions with the European and the producer countries, will be just as important as the ability to gather the necessary know-how. This point relates the energy issues with the issues of European monetary policy and with "Europa" dealt with by others.

An EEC policy of exchanging capital equipment for oil would in due course lead to the coordination of oil supplies, which would in turn allow the European countries to share the resulting benefits. But a common supply and industrial location policy requires a common oil price policy. EEC institutions to set this policy appear necessary. The importance of energy prices has been so dramatically stressed in the last year that there is no need to insist on it. The price of energy will certainly influence the competing ability of European industry; affect agricultural costs; create new trends in the location of industry through transport costs; and affect the level of real welfare in the various regions of the continent. If European countries have to develop together, they must have some degree of control over energy prices, and be able to integrate various energy sources with different production and transport costs. The European Steel and Coal Community did have a price policy for coal; and it is very well known that coal prices vary considerably for different mines, different ore grades, distance from the consumption point, ecc. So the task of applying the European coal

price policy was by no means easy. Nevertheless, it was discharged honorably, and it played a useful part in the European energy policy.

4. Consequences for European Institutions

The energy crisis is putting ^{pressure on public} institutions all over the world, and is inducing even the more "laissez faire" governments to intervene. This trend is already visible in the U.S. and many countries in Europe and elsewhere. The European institutions are subject to the same pressure: avoiding intervention at the European level may mean throwing away a very important chance, which may not occur again.

The points we have outlined above give a basic idea of the demands that are being made upon the European Community, and the institutional innovations needed.

The first need is for planning, and not only at the sectoral level. European institutions are required to have a high degree of control over the European economy, if they (as above outlined) have to support global demand; launch or coordinate heavy investment plans to adapt the European economy to the higher energy prices; pool resources and research ventures in energy; correct possible industrial location imbalances; deal with the producing countries and control energy prices. Without a proper planning mechanism, there is no way of preventing the energy crisis from driving the economies of various European countries further and further apart. Planning at the EEC level - for the above outlined areas of action - should cover the drafting of objectives, the choice of main instruments, and the control of their actual effect. It may be too early to spell

out the form and structure of such a mechanism, but it must be stated that there is a definite need for such institutions, if European Government is to become a reality.

Second, the energy sector requires the speedy revamping of existing coal and nuclear energy institutions, and the creation of ad hoc instruments, similar to those of the CECA, which will deal specially with oil in addition to coal and nuclear energy. Their task as for oil will be to coordinate relations with the producing countries, to monitor crude and products prices, in a word, to evolve a European oil supply policy. Crude oil prices will increasingly come under public control due to the widening scope of direct producer-consumer agreements, which will be negotiated by national governments, or-better still - by European institutions. The integration of oil from this source with oil coming through commercial channels should be done by a European institution, which will also be responsible for controlling petroleum product prices throughout Europe. Wide divergencies of oil product prices in European countries could, in fact, create serious imbalance. Europe will have to be divided into zones and prices fixed in accordance with the Community's overall regional and territorial policy.

Planning in the energy sector will have to take account of the need for a reasonable degree of security, and indicate the best way to reach this goal, through stocks, by keeping on the market energy sources that are only marginally competitive, and by insuring a high degree of flexibility for European energy production.

Document rédigé par H. GIERSCH

Document written by H. GIERSCH

1. The Case for a European Parallel Currency

I. The Case for a European Parallel Currency

1. The case for creating a European Parallel Currency is based on the case against the Werner-Plan.

2. The Werner-Plan aimed at an exchange-rate union, i.e. a system with irrevocably fixed exchange-rates. This approach is bound to fail for the following reasons:

- An exchange-rate union resembles a price cartel. It is viable only in combination with a quantity cartel, i.e. an agreement to regulate supply. The quantities to be regulated are the national money stocks. They would have to increase in approximately equal proportion to the member countries' potential output in order to prevent disturbances from differences in the rates of inflation.
- An alternative and more direct support for an exchange-rate union would be an agreement with regard to rates of inflation. Inflation rates would have to be roughly the same with some leeway for differences in productivity growth and for price rises due to abnormally high income elasticities of demand for the exports of a particular country.
- Lastly, the members of an exchange-rate union could agree on a common pace of wage increases with due allowance for differences in productivity growth. The purpose would be to have roughly similar increases in national cost levels.

The rules to support an exchange-rate union would have to be laid down in advance, to be defined in an operational way and to be combined with effective sanctions. Sanctions would require a supra-national authority. Exchange-rate fixity that is not validated by the necessary policies is bound to break down or to lead to a retreat from

convertibility. This is in accordance with the theory of the Second Best which teaches that an improvement in one respect may result in a general deterioration unless it is accompanied by complementary improvements.

3. The promoters of the Werner-Plan thought that policy coordination would come about automatically. (They thus adhered to what in development economics is called the doctrine of unbalanced growth.) Such automaticity, however, cannot be expected unless there is support from the general trend. In fact, the wind has been blowing in the opposite direction; we have observed:

- an increasing need for demand management and growth policy after the end of the postwar reconstruction period,
- a strengthening of cost push tendencies due to a slowdown of real growth in some countries,
- the failure of U.S. income policy in 1966,
- an intensified social unrest and a fiercer struggle with the income distribution after the events of May 1968,
- the flooding of the world with dollars in the second half of the sixties,
- increasing permissiveness of governments and central banks vis-à-vis inflation in general.

With rates of inflation close to or above 10 per cent the differences in inflation rates from country to country tend to become accentuated. Without a prior return to conditions approaching price level stability there is little chance for any return to a system of fixed exchange-rates without restrictions on international payments. We are going to live with floating rates whether we like it or not.

4. It would be good if two principles governed the way to European Monetary Union: gradualism and automaticity. The first has prima facie advantages as has been experienced in the removal of tariffs. Automaticity can take the form of a political commitment to a specific time schedule or of a well-designed mechanism governed by market forces. With all respect for the achievements of enlightened politicians and statesmen I am confident that a European money will either be the creature of a European state or it will emerge because the need for it expresses itself in the market.

5. The market will decide what form the European Money may take. Candidates are the dollar, the pound or any other member country currency - or a new unit which is launched in competition with existing moneys. A new unit has many obvious advantages. Its drawback is that it has no history from which confidence can be derived. And it needs overwhelming confidence until it can claim to offer similar scale economies as the dollar or the pound. The confidence towards a new money must result from promises attached to it, and the promise that matters is the promise of an interest which the holder can expect to earn in terms of an appreciation vis-à-vis other moneys and (possibly also) vis-à-vis goods and services.

Possible Definitions of a
Common European Unit of Account

..

1. One of the functions a good money has to perform is to be a unit of account. In this function it has to facilitate (ex post) profit and loss accounting and (ex ante) cost-benefit accounting in all decision making units.

2. What a good unit of account means is revealed in periods of inflation. When the value of money deteriorates the traditional use of historical prices in calculating depreciation allowances leads to an underassessment of costs and to an overassessment of profits. Some economic activities which are socially wasteful, appear to be profitable. The result will be a misallocation of resources. This is partly or wholly compensated to the extent that inflation raises the level of employment and capacity utilization - as it happens as long as inflation is at least partly unanticipated by wage and price setters.

3. Sooner or later, if it is to remain unanticipated, inflation must accelerate. This is the stage we have reached now in most EC member countries and elsewhere. A return to less inflation becomes more and more urgent, but also more and more difficult. One of the two solutions to the problem of accelerating inflation is the introduction of a new unit of account. Inflation can thus support the case for a Common European Currency.

4. It will be assumed in the subsequent discussion
 - that a European Currency to be called the "Europa" is to be issued parallel to national currencies,

- that the "Europa" is to be attractive enough to squeeze national currencies gradually out of the market and
- that the "Europa" is attractive enough to become a world currency in the sense that it can successfully compete with the dollar in intercontinental transactions.

Attractiveness will, therefore, be decisive in choosing among possible types of definitions for a Common European Unit of Account.

5. Most appropriate for individual users in the Community would be a unit of account

- that had some relation to existing national currencies,
- that was stable in terms of those commodities which could be taken to represent the inputs and outputs of firms,
- that was stable in terms of a representative basket of consumer's goods.

6. An appropriate relationship between the "Europa" and the national currencies can be established if the former is defined as a bag of the latter. An example is furnished by the denomination of the Eurco loans, where an Eurco is the sum of DM 0.90 (weight 28.9 %), ffrcs 1.20 (weight 22.3 %), £ 0.075 (weight 14.6 %), L 80 (weight 9.9 %), hfl 0.75 (weight 10.1 %), bfr 4.50 (weight 9.5 %), dkr 0.20 (weight 2.7 %), Irish £ 0.005 (weight 1 %) and Lux frcs 0.50 (weight 1 %).

The rate between the numbers of units of any two currencies in the bag is determined by the (cross) exchange-rate prevailing in the market and the relative weights. The higher a country's GNP the greater is the weight of its currency in the bag.

7. The exchange-rates applied in calculating the number of units of each currency can be fixed or adjustable.
- A fixed system of rates - as implied in the Eurco definition - might soon become unrealistic. If market exchange-rates continue to vary under the impact of differences in rates of inflation, the value of the Eurco in terms of goods and services will then change according to the weighted average of the inflation rates at artificial weights which will no longer reflect the relative importance of the respective national GNPs in real terms.
 - If every currency revaluation vis-à-vis the rest of the bag were compensated by a corresponding reduction of the number of units of the currency in the bag and if - conversely - every devaluation were matched by a corresponding increase in the number of units of the currency in the bag, the Europa would reflect the inflation rate of the member currencies whose parity had not been changed.
 - The Europa would have a stable external value (in terms of gold, SDRs or any third currency) if the previous formula were applied with the modification that appreciations and depreciations were measured with reference to gold, SDRs or any third currency.
 - The Europa would be tied to the strongest currency in the bag, if only devaluations were permitted vis-à-vis the rest of the bag, if devaluations were compensated by a corresponding increase in the number of units in the bag and if one currency (the strongest) would never depreciate.
 - The Europa would also be tied to the strongest currency in the bag, if, in case revaluations were permitted, they would be treated as devaluations of the other currencies in the bag.

- The Europa would appreciate vis-à-vis any currency in the bag, if, during the period of reference, every currency would depreciate at least once vis-à-vis the others so that the number of units of every currency would increase due to the compensation formula.

- The Europa would appreciate vis-à-vis the strongest currency independent of whether there were exchange-rate changes and it could be made stronger than the dollar, if the number of units of each currency in the bag would be increased by $x - z$ per cent, whenever the weighted average of the national consumer price indices had increased by x percent. x could be of the order of magnitude of 5. z may be zero; but if anybody saw advantages in an inflation which could be fully anticipated, he could argue in favour of a z of one or two - and a correspondingly higher interest on claims denominated in Europas.

Document rédigé par P. LYNCH

Document written by P. LYNCH

1. Monetary integration - A note on the Irish experience

A note on the Irish experience

by

Patrick Lynch.

"il est permis de se demander si les orientations suivies reflètent de près ou de loin un début de conception d'une véritable politique régionale dans la Communauté" ¹

Today the Republic of Ireland is a small peripheral European economy, but by a paradox of history its experience sheds some light on the problems of achieving economic and monetary union in a very much greater geographical area such as the European Economic Community.

Prior to the Union of the British and Irish parliaments in 1801 each country had a separate currency and retained it until 1826 when both currencies were assimilated. (Incidentally, one member of the British parliament suggested that it should be a decimal currency!). This ended a controversy over Irish monetary policy which had gone on for nearly a quarter of a century. And, to quote Frank W. Fetter², "For more than a century and a quarter Ireland, as part of the United Kingdom, as a member of the British Commonwealth of Nations, and as an independent Republic, has maintained its currency at par with the British pound through redemption in London exchange and sale of London exchange, in line with the recommendations of the Committee of 1804".

The 1804 Committee to which Fetter refers produced a report by a United Kingdom Parliamentary Committee on "The Circulating Paper, the Specie, and the Current Coin of Ireland". It contained,

-
1. UEM - 18 Papier de MM Clappier et Brouwers : Analyse critique de la première étape de l'Union économique et monétaire européenne" p.3
 2. The Irish Pound (Allen and Unwin, London 1955) p. 62

according to Fetter, "a large part of the doctrine later incorporated in the Bullion Report on the relation between monetary and banking policy, prices, international payments, specie premium, and exchange rates - the exchange situation between independent monetary systems in the same political sovereignty"³. The Bullion Report of the United Kingdom Parliamentary Committee was published in 1810; it achieved popular fame in the English speaking world and had an influence on economic policy unequalled by any other public document on monetary problems. David Ricardo's name had been associated with it partly for legendary reasons. In any event, the Bullion Report became the orthodoxy of nineteenth century British economics. Its main principle was that the monetary authority in an area can maintain a stable exchange rate through the use of its external reserves and changes in credit policy. This was the doctrine accepted by two directors of the Bank of Ireland, Arthur Guinness (the great brewer) and William Peter Lunell in their evidence to the Parliamentary Committee whose recommendations led to the assimilation of the British and Irish currencies in 1826.

This policy of assimilation had immediate deflationary effects for the Irish monetary economy. "It is ironical that the policy with which Arthur Guinness was associated as a banker was one of the causes of his ten bad years as a brewer"⁴. The assimilation of the two currencies in 1826 consolidated the progressive revaluation of the Irish pound which had been depressing Irish exports since 1815. The year 1826 marked for Ireland the beginning of an economic malaise corresponding to what Great Britain was to experience in the twentieth century after the return to the gold standard in 1925. Until comparatively recently the economic stagnation of Ireland, including the great famine^{1846/47}, for most of the nineteenth century has been explained

3. Ibid p.5
 4. Guinness's Brewery in the Irish Economy 1759 - 1826 by Patrick Lynch and John Vaizey (Cambridge 1960) p. 10

largely in political and social terms - and, in my opinion, incorrectly. The adoption of Keynesian techniques and post-Keynesian national income accounting concepts have, however, helped greatly in treating problems of economic development, and the history of Ireland in the nineteenth century and after is no exception⁵.

The Irish experience strongly suggests that the introduction of economic and monetary union is feasible in an EEC context provided that the social and regional policies of the Community are already sufficiently effective to prevent a one-way movement of the factors of production, labour and capital from the periphery towards the centre and so destroying the whole concept of an economically and socially balanced community. Between 1826 and the 1950's there was almost continuous one-way mobility of the two factors labour and capital away from Ireland. The result was emigration, unemployment and economic stagnation. There is little doubt that monetary union with the United Kingdom arrested economic growth until such time as these deterrents to growth were identified and eventually off-set. In the 1930's a policy of economic protection was adopted. It had limited success and is now disappearing in line with the liberalization of trade internationally. After 1956 incentives for promoting export-orientated industries were introduced. In any event, as has been pointed out⁶ tariff protection and export subsidies have the same effect as devaluation of the currency.

The Irish experience would seem to illustrate many of the contentions of Sir Donald Mac Dougall in his paper on

5. See Ibid and Malcolm Gray The Highland Economy 1750-1850 (Edinburgh 1957)

6. See T.K. Whitaker "Monetary Integration : Reflections on Irish Experience" Quarterly Bulletin, Central Bank of Ireland. Winter 1973.

Economic and Monetary Union which he presented at the second meeting of the Group UEM-8, in Particular, perhaps, in his views on the harmonization of fiscal policies. It points further to the necessity for adequate emphasis on the role of factor mobility in an integrated currency area. It also indicates that a certain regional autonomy in monetary and economic matters is possible and, indeed, useful in the context of planned economic and social development.

Starting from the basic point of agreement with Sir Donald MacDougall, the Irish experience suggests:-

1. The distinctive feature of a regional economy as against a national economy, is its openness; it cannot influence the terms of its "external" trade in relation to its "internal" product.
2. Any economy - household, regional or national - must balance its external account. A national (autonomous) economy, however, has a wide measure of discretion (through import-control, fiscal and credit policy, exchange-rate policy) in relating the need for the external balance to the desirable volume of domestic employment and price trends. For a regional economy, on the contrary, prices are fixed externally as are export earnings and, to a very large extent, incomes and sustainable employment. In short, a region is dominated by exogenous determinants unless there are countervailing forces consciously deployed to preserve these elements of the region worth preserving.

3. In the case of congested regions the outward movement of the factors of production, especially of labour and capital may be considered an equilibrating one. This movement is induced by the externally dominated level of, and changes in, economic activity. In the case of the large European peripheral regions, however, such mobility in fact constitutes a destabilizing and a generally debilitating flight of capital and of active population, leaving the region with a disproportionately high per capita cost of social services and of infrastructure while the taxable capacity to meet the cost is reduced. This is the lesson of the Irish experience up to the 1950's. A solid substructure of economic integration is a pre-condition of monetary integration.
4. In the United Kingdom the transfers of income through the central government budget go a long way to offset the social and infrastructural cost of a backward or depressed region and are, of course, very relevant within the context of a Community Regional Policy. It should be emphasized that the case for these transfers in the EEC may be considerably stronger than is at present generally appreciated when such unremunerated services as preservation of environmental amenities are brought into the reckoning. Here again, the Irish experience provides evidence that the so-called economically depressed areas are, in fact, those which are of most relevance from the viewpoint of an environment whose values must be assessed in aesthetic rather than in measurable economic terms.

5. In regard to the extent to which the monetary and economic autonomy of an EEC region in the EMU may be possible, the Irish experience can also be more directly relevant, particularly if the probable development in the EEC is a devolution of the present national autonomies downwards to regions as well as upwards to Community institutions ⁷. Such concepts of devolution as subsidiarity would be consistent with recent thought about public administration on the means of avoiding monolithic centralism. I have already suggested that there is urgent need for the EEC to devise a modern system of public administration which makes use of delegation, devolution and the application of the principle of subsidiarity if monolithic stultification is to be avoided. In any event, after a postwar decade of near stagnation, due largely to the circumstances described in paragraph 3 above, Ireland ventured into planned "autonomous" economic development which soon brought relatively rapid expansion, an end of emigration, a reduction in unemployment and to the flight of capital (there has, in fact, been a substantial net capital inflow) and a marked improvement in living and in social standards generally.
6. In the 1960's Ireland rejected the idea and practice of isolationist protectionism. It accepted the fact that a small sheltered home market could not provide employment
-
7. To complete the picture it would be useful to have also a closer look at the regional experience of Federal Germany.

for its labour or capital, that an ability to compete internationally was essential. The economic growth of the 1960's was promoted to a large extent by heavy infra-structural investment which had taken place in the 1950's. In full recognition of the openness of the economy, the objective was export-led growth. In the Irish experience the equilibrating movements of factors occur outside ascertainable "margins of tolerance". Despite a particularly close monetary interdependence with the U.K., a domestic interest rate pattern emerged in Ireland and the Central Bank of Ireland has been able to attain a certain degree of autonomy in credit policy. An independent incomes policy is being pursued which, without being particularly successful, is certainly not less so than in other, much more autonomous countries.

7. What the Irish experience seems to suggest is that on the basis of adequate external monetary reserves (net capital inflow into the region) it may be possible - within quantifiable margins of tolerance as regards incomes and owing to ascertainable frictions in capital movements - to attain a reasonable degree of autonomous, planned economic development (outside the straight-jacket of dependence on external factors) which may give the region an adequate degree of self-reliance to 'take off' into sustainable, commercially motivated growth. (In this connexion it might be useful to consider in some detail the statement in the paper by MM Clappier and Brouwers that I have quoted as an epigraph to this note).

This means, however, that the EEC system of public administration must be such as to delegate to regions a reasonable capacity to direct their own affairs with the ability to raise locally by taxation the amounts supplemented by Community regional grants necessary to sustain the cultural, social and economic viability of the regions.

Document rédigé par Sir D. Mc DOUGALL

Document written by Sir D. Mc DOUGALL

1. Discussion paper submitted for the second meeting of the Group on 29/30 March 1974

DISCUSSION PAPER SUBMITTED FOR THE SECOND MEETING OF THE GROUP ON
29/30 MARCH 1974

As requested by the Chairman, I expand below some of the main points I made at our first meeting. I have deliberately been rather provocative in order to stimulate discussion.

A. Political objectives and the types of economic and monetary cooperation likely to achieve them.

As we are starting from scratch, we might consider first the political objectives of the Community.

One fundamental objective is to make war virtually unthinkable between the members, as it is between, say, England and Scotland; the States of the U.S.A.; the Provinces of Canada. Can and should we identify the reasons for this state of affairs and try to replicate them in the Community? I suspect that the possession of a common currency is unimportant and that much more important is, for example, the fact that most people living in, say, Scotland have friends and relations in England and vice versa.

If so, does this mean that in the EEC, in framing a strategy for developing cooperation, we should, for example, give greater priority to measures designed to increase the mobility of labour than to monetary union?

Other political objectives could be chosen and used in the same way in framing priorities for economic cooperation. One objective mentioned by the Chairman was the avoidance of undue U.S. influence on individual members or alternatively the avoidance of their going "neutral". What measures of economic or monetary cooperation would be conducive to the achievement of these objectives, and why? How, for example, would the suggested creation of some form of European central bank help?

B. Conditions for monetary union.

I doubt whether many people have the slightest idea of the enormous changes required to achieve and maintain monetary union, by which I mean irrevocably fixed exchange rates or a common currency. The Group will presumably have to analyse, and report on, these changes. One approach, set out briefly and tentatively below, is to consider the equilibrating mechanisms available in a monetary union, such as the United Kingdom, which enables it to have a common currency and yet

/prevent intolerable disparities....

prevent intolerable disparities in levels of employment, living standards and rates of growth in the various parts of the country.

1. First, there is the "openness" of regions within a country. For example, the "openness" of regional economies in the U.K. (as measured by the ratio of their trade with the rest of the country and overseas to their regional products) is very high in comparison with that of sovereign states with comparable sizes of domestic products - often several times as high.* This no doubt reflects the great interdependence of the various regional economies that has developed during many generations of free movement of goods, services, labour and capital between them.

One consequence is that if, for example, there is a drop of, say, £10m. in the "exports" of a region, this will typically be offset directly by a reduction in "imports" of materials, components, etc. of perhaps £6m. ^φ - a far higher proportion than in a typical independent state, even one of the same size.

2. Secondly, a large part of the drop of £4m. in the rewards of factors of production (wages and profits) within the region will be offset as a result of the existence of a large national budget and of national insurance funds.

So far as workers are concerned, those becoming unemployed will receive on average something like 50 per cent. of their previous wage in unemployment benefit, and also stop paying taxes and social insurance contributions equal to around 20 per cent. of their previous wage. Those working fewer hours will pay less tax etc., equivalent to around one-third of their loss of gross income. In total, something like one-half of the drop in the wage and salary bill will be offset in these ways.

Likewise, around 50 per cent. of the drop in profits will

/be offset by

* See A.J. Brown "The Framework of Regional Economics in the U.K.", p. 23.

φ Op. cit. p. 188.

be offset by reduced payments of corporation tax.

Thus, about half of the drop in wages and profits will be offset by a reduced monetary flow to the rest of the country because of the national budget and social insurance arrangements.

3. Thirdly, because the ownership of firms "exporting" goods from regions is in general fairly widely dispersed throughout the country, quite a high proportion of the fall in post-tax profits - probably well over one-half - will be offset by a fall in the flow of dividends and undistributed profits to the rest of the country.
4. For the above reasons a fall of £10m. in the "exports" of a region will typically be offset to the tune of, say, £8-9m. by lower imports of materials etc. into the region and by lower net transfers of tax, social security contributions and benefits, profits and dividends out of the region. Conversely, the purchasing power of residents of the region will be reduced, typically, by only £1-2m. In addition this drop in purchasing power will be partly offset, after some time lag, by (a) financial transactions between the central and local governments resulting from standing arrangements to help less prosperous local authorities to maintain a given standard of services despite a fall in their local revenues; (b) deliberate regional policies to help less prosperous regions through various forms of subsidy or tax relief to private investment or employment, and through public "infrastructure" investment.
5. Including these public sector transfers, the typical offset is probably in the region of 90 per cent. Given the highly integrated national banking system, one might expect any residual worsening in the "balance of payments" of a region to be fairly easily offset, at least in the short run, by capital flows. Also, any rise in unemployment and fall

/in income per

in income per head in the region, relative to the national average, is likely to be offset to a considerable extent by net migration of labour out of the region, given the very considerable mobility of labour within the country which is several times as great as that between countries. In addition, if labour becomes relatively plentiful in the region, whereas it is scarce elsewhere in the country, firms will have an incentive to direct their investment to the regions.

Even given the extremely powerful equilibrating mechanisms described above, a country like the U.K. is just able to sustain a common currency without intolerable regional disparities in levels of employment, living standards and rates of growth. (Scottish and Welsh national movements reflect in part dissatisfaction with such disparities.) In the case of one of the larger EEC countries vis-à-vis the rest of the world these equilibrating mechanisms are at present enormously smaller and, in some cases, non-existent. I would guess that the figure of 90 per cent. in sub-paragraph 5 above would be more like 15 per cent.⁽¹⁾ (and under 10 per cent. vis-à-vis the rest of EEC).

/In these circumstances

(1)

The following figures (in £m.) illustrate in very broad terms what I have in mind.

	Typical region of a country £m.	Larger EEC country £m.
Fall in "exports"	10	10
Fall in "imports" of materials, components, etc.	<u>6</u>	<u>1½</u>
Fall in value added/wages and profits) in region/country	4	8½
Fall in tax and social security contribution, plus increase in social security benefits	<u>2</u>	<u>neg.</u>
	2	8½
Fall in profits paid outside region/country	<u>½</u>	<u>neg.</u>
	1½	8½
Effects of regional policy, etc., say	<u>½</u>	<u>neg.</u>
Fall in "disposable income" of region/country	<u>1</u>	<u>8½</u>

Allowing for multiplier effects, and for the greater "leakage" into "imports" from a region than from a country, the figures in the bottom row might be of the order of 1½ and 12. These illustrative orders of magnitude admittedly overstate the relative strength of the equilibrating mechanisms in the case of a region compared with that of a larger EEC country insofar as changes in the 'exports' of a region are greater in relation to its 'national income': but the disparity is still, I believe, great.

In these circumstances I cannot believe that monetary union would be sustainable. Moreover, for it to be sustainable I suspect the figure would have to be raised, if not all the way to 90%, at least to something very much more than 15%. I suggest that this would require:-

- (a) at least several decades, and possibly a generation or so, of growing economic interdependence, including much more geographically diffused ownership of European industry;
- (b) a Community budget enormously greater than is at present contemplated, which would involve taking over much of the existing powers of taxation of member states and, directly or indirectly, a large measure of control of their expenditures; this would probably involve, among other things, a common unemployment fund.

In addition to these developments, but not as a sufficient alternative, it would be necessary to have a very much larger Community regional fund than is at present contemplated. Measures to increase mobility of labour would also help.

I hope the Group will discuss whether (a) and (b) above are necessary conditions of monetary union. If they are, it follows (i) that monetary union could not be achieved nearly so early as 1980; (ii) that it would require a very great pooling of sovereignty equivalent to the creation of a federal union.

If it were agreed that, despite these considerations, monetary union was still a desirable longer-term objective, there would still be a good deal to be said for concentrating on measures to speed up the achievement of condition (a). Most of these measures would in any

/case be desirable.....

case be desirable in their own right. I am thinking of things like the progressive removal of invisible barriers to trade (e.g. in the field of public procurement); encouraging labour mobility; encouraging the mobility of capital, including both direct and portfolio investment across national frontiers. There would be implications for Community policy in various other fields, e.g. policy on industrial mergers.

At the same time gradual progress could be attempted towards the achievement of condition (b), e.g. by enlarging the regional and social funds and possibly by some move towards a common unemployment fund. But we should not deceive ourselves that such relatively modest moves would make possible an early achievement of monetary union. Nor should we go in for harmonisation for its own sake, e.g. harmonisation of tax rates which would reduce the power of member governments to manage their economies; such national management will continue to be essential unless and until a federal union is achieved.

ANNEX

It may be objected that the above analysis is vitiated because the Republic of Ireland manages to maintain a fixed rate of exchange with the U.K., despite the absence of a common budget. Professor Lynch's views on this will be valuable. My provisional reply would be as follows:-

- (i) Ireland has in a sense been a "fringe" economy, and monetary union between the U.K. and Ireland is different in kind from a monetary union between, say, the U.K., France, Germany and Italy.
- (ii) The economic inter-dependence of the U.K. and Ireland is very great and much greater than that between, say, the U.K. and most Continental countries.
- (iii) Ireland's marginal propensity to import is very high, perhaps 80 per cent., and much higher than that of larger countries like France, Germany, Italy or the U.K.
- (iv) Movements of labour between the U.K. and Ireland have been large (helped by a common language) and sensitive to relative wages and unemployment, and thus an important equilibrating mechanism.
- (v) Despite (ii) - (iv) above, problems have arisen in maintaining an effective monetary union and the Irish pound has been effectively devalued against sterling at times by tariffs and export subsidies. It is estimated that in 1966 the effective devaluation was as much as 19 per cent.

Documents rédigés par H. MARKMANN

Documents written by H. MARKMANN

1. The Policies of Social Security in a future Economic and Monetary Union
2. Concerted Action in the Economic and Monetary Union
3. Measures to fight Unemployment

Heinz Markmann

The Policies of Social Security in a future Economic and Monetary Union

1. The Treaty of Rome is dealing with the politics of social security in only one sentence in the frame of the aims of the European integration in speaking of an "accelerated rise of the living standard".

The articles 117 - 122 of the Treaty are containing only a catalogue of intentions for the cooperation of the member countries in the various fields of the social policy, but there are no precise directives for concrete action.

The free mobility of labour is only a part of the technocratical conception of the Common Market.

The European Social Fund is an important instrument of the social policy, particularly because a committee of representatives of the social partners (trade unions and employers organisations) is joined with it.

2. Societal and social security politics have suffered for long years a life in the shadows. At the best they got the function of a makeshift. The trade unions as the organisations of the largest sector of the working population have to a large extent been excluded from the decision-making process in the EC, although they advocated the European integration from the very beginning.
3. The EMU will fundamentally change decision-making in economic, social and political affairs. National institutions and procedures will be altered too. All economic decisions have social effects. Therefore it is absolutely necessary to take into account the social aspects while constructing the EMU.
4. It is necessary to make the European institutions more democratic if they shall get more competences especially in the social domain. But democratisation means participation and co-determination of all those, who are affected by decisions. Participation cannot be confined in formal equality before the law, but it must lead to material equality of chances for everybody.

The principle of subsidiarity should be observed in all cases of power-delegation from one decision-making level to the other.

5. The Paris Summit of October 1972 has adopted a basic mood of the population, which is directed at stronger notice of the social sphere in general. The European statesmen obviously got the right perception of the immediate interests and needs of the masses of working people, who must be motivated, because this is the only way to stimulate political pressure in favor of EMU.

The Paris declaration animated the hope, that the long-lasting stagnation of the social policy would be succeeded by an era of reformatory activities.

6. In detail the leaders in Paris had declared:

- to use economic growth in the first line for a harmonisation of the living conditions;
- to improve the living standards and the quality of life of the peoples;
- to invite the social partners for participation in the European decision-making process;
- to elaborate a social program for actions;
- to give the same weight to energetic social measures as to the realisation of EMU.

Most groups, especially the trade unions, outspokenly have welcomed that declaration in the hope of quick activities following. But the activities exhausted themselves in oratory and declamation as for instance at the Copenhagen Summit, where other problems completely oppressed the social aspects of community politics.

7. There is now the Commissions program of action in social politics which has been adopted in full by the Council of the Labour ministers in December 1973. This document is slightly suffering of the Brussels perfectionism in details, which makes disappear the broad lines of a consistent concept, as the heads of governments had sketched in Paris. The Commissions program points at the following goals:

- Full employment and better qualification of the labour force;
- amelioration of conditions of life and work;
- more participation of the social partners in decision-making.

8. It is important for the workers and their organisations, that social progress finally will be brought forward at different ways, while a forced growth policy has ended with grave and obvious social damages and threats.

But there are well-based doubts about the realisation of the before mentioned goals, especially of democratisation by participation, doubts because of the lack of political willingness and of the lack of appropriate institutions.

As a core for a future development one could mention the Economic and Social Committee, the competences of which could and should be enlarged.

Sporadically established commissions, composed at a parity basis, could and should be institutionalised in a more formal way and given more competences too.

9. There can be no doubt that social policy in the double sense of "Gesellschaftspolitik" aiming at reforms of the society as a whole and of social security and social insurance must have an independent status among the other fields of political activities. The more social policy is charged with prophylaxis of social damages instead of ex-post curative measures, the more expensive will it become. The secular trend in all industrialised societies is going towards more individual security by collective and solidaristic activities. Grave sickness has become such a burden for most families that only a large official insurance system with subsidies or at least guarantees by public money can alleviate that burden and avoid innumerable individual catastrophes. Only few wealthy people can take care for their age of retirement from active working life. Unemployment is threatening almost every employee in the private sector. The loss of income in the case of unemployment must be compensated by public funds. The state or society must provide retraining facilities, transfer mechanisms and other means of an active labour market policy.

10. It is certainly right to say, that without an adequate wages or incomes policy and without a close linking of a social security (with its voluminous parafisci and government subsidies) with the overall economic policy at European level a real EMU cannot function properly. It is certainly true, that independent trade unions by their autonomous activities can disturb or even destroy any economic policy of governments. One should not neglect the fact that one of the most basic guidelines of unions policy is the redistribution of income and capital for the sake of the workers.

Any attempt to decree to the unions an incomes policy, which consists only of a restrictive wages policy linking wage rates at the development of the overall productivity, inevitably must fail, because it would mean to freeze the incomes distribution between the social groups at a given level.

11. The sheer weight of wages and salaries compared with the national product and the power of trade unions in the EC make it urgently necessary to search for a form of social contract which could satisfy the interests of all parties involved.

A very important proposal has recently been made by a group of Norwegian experts under the Chairmanship of Mr. Skomland. It can be summarised as follows:¹⁾

- Precondition is the defense of the market economy, against a rigid dirigism, which would lead to sacrifices of growth, full employment, equity of incomes distribution, peaceful industrial relations; these goals are too important, in order to sacrifice them to price stability.
- Incomes policy cannot be separated from the general economic policy and their instruments.
- All measures of incomes and prices policies must be treated as a whole; they must be flexible enough in order to be adjustable at any given situation.
- Incomes policy must encompass a wide range of incomes, whether received as wages, prices or in any other form.

1) cf. Morges Bank - Economic Bulletin, 1973/3, pp.116-126, esp.118

- Although incomes policy might be based on decisions by the political authorities, it should rather be based on extensive cooperation between the authorities and the organisations which would have to share the responsibility for its implementation.
- The targets must be realistic; unrealistic targets would only serve to bring incomes policy into difficulties and neglect.
- Although the central aim is the influence on prices, much emphasis must be given to incomes distribution.
- Incomes policy necessarily must be conceived as a longterm enterprise, especially with regard of distribution effects.
- The figures of orientation of both government and bargaining partners must be compatible; there must be consensus about the harmonistic implementation of the political measures available for the different groups; at such a basis guidelines can be established, which then are binding all groups and authorities concerned.
- The parliament must pass the guidelines and can vary them; parliamentary approval will strengthen the position of government. The autonomous bargaining parties must share responsibility with the government in the nominal incomes policy, but as a compensation they will get more influence at the real incomes of the employees.
- Instead of pushing responsibility and competence from one instance to the other an exchange of influence would be established between constitutional institutions and pressure groups.
- The autonomy of trade unions and employers' associations would be respected and also the right of labour disputes, but the guidelines would serve as a safety-valve.
- The members of the organisations involved should cast their votes for the guidelines; in cases of rejection the guidelines must be renegotiated.

12. The Norwegian proposal was reported in such length, because it could become relevant for EMU. But there should be no doubt, that the introduction of such a pluralistic or multilateral model of an incomes policy at a supranational level must inevitably meet insurmountable difficulties. Therefore should it be tested at national levels.

In an intermediate phase the EC-institutions gradually should be prepared for the take-over of competences in the field of incomes policy. The Commission and the Economic and Social Committee should start with medium-term, economic projections and with the attempt of convincing the national authorities to take notice of its proposals in their economic decisions.

But in view of the lack of power of the European authorities also in the year 1980 an other strategy seems to be more successful: The member countries establish national "Councils of incomes and price policy". These councils are setting the national economic and social objectives and report them to the EC-Commission, which then tries to coordinate them. Whether and how a feed-back process between national and European bodies could be provided needs further discussion.

Without a solid basis of mutual trust any form of incomes policy necessarily must fail. Therefore the creation of an atmosphere of confidence between public authorities, employers and unions is extremely important. Institutionalised exchange of informations and opinions between the groups concerned; obligatory participation of the social groups in the preparation of the outlines of an economic and social policy; avoidance of preferences or privileges to only one of the partners: these and other related measures and attitude should be borne in mind, while preparing an incomes policy. First steps in that direction could and should best be done in countries where there are good relations between labour and government. Because nothing is more convincing than success, a well-functioning example in one country could serve as an incentive for others.

13. In addition to a wages and prices policy measures of capital formation or profit-sharing for the workers should be provided. Their effects would be a gradual redistribution of the production capital; additional incomes from capital gains; more independence and freedom of the working population.
14. In order to come to a stable social and political order as the basis for any desirable development, also in direction of EMU, it will certainly be useful to strengthen the unions rights and their autonomy. This is the only way to win them for coordinated and concerted action and thus to bring them into the position of a rather stabilising force in economy and society. Supported by their members and by the public opinion they will be well prepared to obey the rules of the game also in the distribution struggle.
15. The concluding question is: What can social policy, trade unions resp. the social partners contribute to a fairly well functioning EMU? The keyword for the answer can only be participation and co-determination of the workers and their representatives from the shop floor to supranational bodies.

If the main objective is and remains the harmonisation of the living and working conditions throughout EC, and if it is true, that the national authorities are not yet prepared or willing to make decisive steps in that direction, so it is possible to use the flexible tool of collective agreements across the boundaries with the support of the Commission and the international confederations of unions and employers. The multinational companies have already come into the role of midwives of multinational social policies.

If the trade unions will remain excluded from the decision-making institutions and processes, so inevitable the confrontation with the given social and economic system will last. Also will last the mistrust against everything the "technocrats" in Brussels will propose and practice.

Dr. Heinz Markmann

"Concerted Action" in the Economic and Monetary Union

1. In order to secure a most solid basis for those measures for which active cooperation or at least toleration by the parties of collective wage agreements is indispensable or at least desirable, a Concerted Action on the level of the European Community will be established.

This body should be charged by the institutions of the Community with all subjects having their contribution to the creation of an Economic and Monetary Union. The Concerted Action can additionally discuss all subjects that seem to be important with regard to the Economic and Monetary Union.

2. The Concerted Action is not a decision-making body. It is to be understood as Round Table for mutual information, discussion and consultation. Voting on statements of the body will not take place. Every participant has the right to inform the public about his particular ideas on the actual subject.

It should be the aim to reach a consensus on current measures or about certain behaviour of the participating organisations. But no pressure should be exerted to make compromises. Where differences cannot be bridged, these should be clearly articulated.

3. The recommended body will neither be in competition to the Economic and Social Committee nor to the European Assembly. Their competences as put down in the EEC-Agreement remain untouched.

The EEC Commission is obliged to inform the Concerted Action regularly about all actual problems which are of importance to the creation and stabilization of the Economic and Monetary Union. The Commission will regularly inform the Concerted Action about all important steps that will be recommended or which will be taken to establish the Economic and Monetary Union.

4. Participants to the consultations of the Concerted Action will agree and engage to keep the members and the decision-making bodies of their own organisations completely and correctly on the spot about the Commission's proposals to the Concerted Action. They also inform their organisations about the proceedings of the discussion in the Concerted Action. Should a consensus about a subject be reached by the Concerted Action, all participants try to have this consensus accepted by their organisations.
5. The Concerted Action will as a rule once in a quarter be invited to conferences by the presidents of the Commission or by the member responsible for economic and monetary problems. One member of the Commission will be in the chair at the consultations. In critical situations, special meetings are possible. The Commission will provide the Concerted Action with a small office. Official minutes will not be kept. The participants will decide in every particular case if or perhaps in which form communiqués on the discussions are to be published.
6. In order to preserve the character of the Round Table and to emphasize the political character of the group and its discussions, it should be kept as small as possible.

The following composition seems optimal:

- The trade unions of all member countries in the EEC, which are authorized to collective wage agreements, are delegating their Presidents, Chairmen and General Secretaries as far as they are members of the European Trade Union Conferation. The Secretary to the ETUC is member ex officio.
- The national Employers' Associations in the member countries, which are authorized to collective wage agreements, are delegating their Presidents.
- The President of the UNICE is member ex officio as far as he is not president of a national organisation.

On principle, representation is not possible in order to guarantee the continuity of the discussion and to create little by little a climate of confidence.

7. The national governments are not members of the Concerted Action. No observer will be delegated. The national governments will be informed by the Commission over the Council of Ministers about the continuance of the discussion in the Concerted Action. The representatives of the participating organisations will on their behalf keep their national governments informed.

Only in exceptional cases, participants should be accompanied to the meetings by experts. The experts of the organisations should, of course, have enough opportunity to prepare together with Commission the agenda and the proceedings of the conferences.

8. No statutes and no formal and proceeding provisions will be necessary for the Concerted Action. The character of informal opinion-clearing will thus be emphasized and the fear that it would become a competitor will be taken from the organs of the Community.

Dr. Heinz Markmann

Measures to fight unemployment

1. Since in many industrialized countries full employment of the labour force was attained or at least the threat of lasting structural unemployment was reduced and on the other hand even a scarcity of (skilled) labour became more and more pressing, qualification and mobility of the workers became key words for an active labour market policy.
2. The search for easily applicable measures to promote labour mobility led to a full catalogue of activities carried out by labour market authorities and by the bargaining parties. The general strategic line was prophylaxis and prevention of unemployment at all.
3. An active labour market or better: employment policy must be based on a maximum of information about volume, composition and development of private and public demand for goods and services, about development and mutual dependences of employment and education, about economic growth and about working hours.

In addition to those "classical" parameters nowadays the humanisation of work and the "Social Indicators Movement" came into the debate.
3. All policies and measures which were developed in fairly "normal" times to mobilise the available labour potential of course can be implemented also in times when full employment is no longer an automatic result of economic expansion.
4. The concept of an A.L.M.P. should comprise
 - labour exchange
 - labour and professional advice
 - financial aid for individual and institutional promotion of vocational education

- . promotion of starting a career
 - . aid for the handicapped
 - . creation and securing of working places
 - . all unemployed persons.
5. Subsidies can be given to both employees and employers for the amelioration of vocational education, training and retraining, for more geographical mobility in searching and finding a job, for continuation of construction work during the bad season, for the social and vocational rehabilitation of the handicapped.
6. Employers could be offered special incentives for the hiring of additional employees in the form of
- subsidies for the additional costs of training
 - subsidies for the establishment, running and enlargement of training facilities
 - subsidies or loans for the vocational integration of unemployed persons who cannot be brought into work under normal conditions (60 % of the normal wage)
 - subventions for the construction of boarding-houses for apprentices and retrainees (up to 50 % of the total costs)
 - subsidies for the hiring and providing of work for unemployed persons; projects must be undertaken in the public interest. (60 - 120 % of the wages)
 - subventions to the labour costs for older employees to protect especially that problem group who is often most severely hit by economic difficulties.
7. Active Labour Market Policy is an integral part of sectorial and regional structural policies. Therefore, the funds of the respective agencies or authorities should be combined in order to attain optimal success in fighting unemployment by measures of structural policies. There are encouraging examples in Scandinavia and Germany.

8. If in the long run the absorption capacity of the labour market would decrease the periods of education and training should be prolonged, thus diminishing the demand for jobs. At the same time such a policy would help to meet the growing demand for higher professional qualification and better know-how - even as an "export commodity".
9. Investment in human capital is necessary and profitable not only under humanitarian and social policy aspects but also in economic terms of rentability and productivity. The Program of Action in the field of Social Policy, adopted by the Council of Ministers, has taken this idea into account. All social groups and all public authorities concerned should be encouraged to realize as soon as possible that Program.
10. A highly effective advisory and counseling service should be available for everybody. It should accompany a working person throughout his working life.
11. Such a comprehensive employment policy system is of high value for the economy and society as a whole. It, therefore, should be financed by a general labour market contribution or a special tax levied on every citizen.
12. Legislation and administration of an A.E.P. should be as flexible as possible in order to enable the system to react immediately and quickly to any event at the labour markets.
13. Since 1969 the German Labour Promotion Act ("Arbeitsförderungsgesetz") is covering many of the activities mentioned above. It should be noted that self-government bodies at federal, state and municipal levels are formulating, implementing and controlling the employment policy. They are composed by 1/3 Trade Unionists, 1/3 Employers and 1/3 Labour Administrators.

14. A well equipped Labour Market Research Institute is providing the Labour Administration and the public with all data and methods necessary for a rational preventive employment policy.

Documents rédigés par T. PEETERS

Documents written by T. PEETERS

- 1 . EMU and Employment, Price and Income Policies
- 2 . The Link between Internal Monetary Policies and a Credible
Intra-European Exchange Rate System

EMU and employment, price and income policies

1. In a cost-benefit analysis of EMU regaining control at the European level of management of monetary affairs, internal as well as external, would certainly rank on top of the list on the benefitside. On the cost side the major drawback of monetary unification is undoubtedly the fear that it will enhance greater imbalances in regional (intra-Community) growth and unemployment patterns.

Although other costs and benefits may not be unimportant, the debate is nevertheless dominated by these two issues. Any scheme of EMU which cannot deal satisfactory with both issues, not only in economic but also in social and political terms, has probably no chance of being accepted and even less of being implemented. The benefit side which runs in monetary terms, is more or less clear and in any case is outside the scope of this note. Things are more confused on the cost side although the problems involved there are more important. Indeed, imbalances in regional growth and employment patterns have direct relevance for the social objectives and the kind of society one is aiming at. The monetary aspects of EMU are only instrumental in the sense that what is at stake here is not an objective in itself but an instrument of stabilisation policy together with a stable institutional monetary framework to support the attainment of real economic and social goals.

It is the purpose of the following pages to comment briefly on (i) the relation between monetary unification and regional growth and employment imbalances, (ii) the possibilities of a European employment policy as a countervailing action, and (iii) the desirability of European price and income policies.

2. The conflict between monetary unification and balanced regional growth and employment is traditionally presented in terms of the loss of the exchange-rate instrument as a weapon for fighting balance of payments difficulties. With demand management policies directed towards internal balance, external equilibrium is forced to rely on market forces able to obviate balance of payments difficulties automatically and without the aid of deliberate economic policy. It is rather paradoxical to suggest automatic equilibrating forces to maintain balance of payments equilibrium.

"One would hardly suspect the existence of such forces from the history of international economic relations ... And yet, within limits and under favourable conditions, balance of payments equilibrating forces do exist. This is attested by the fact that balance of payments difficulties never or hardly ever arise among regions of the same country, although no conscious policy is aimed at maintaining in equilibrium the balance of interregional payments (1)".

The equilibrating mechanism in interregional relations relies mainly on the mobility of people and capital. Unfortunately the factor mobility which maintains payments equilibrium among the regions of a currency union is of a socially destabilising character.

(i) Income differences attract immigrants from low income (low productivity) to high income (high productivity) regions, thereby further reducing income and expenditure in the low income-deficit region and increasing it in the high income-surplus region. Through migration of people regional disparities in income exert an equilibrating influence on the balance of interregional payments. If labor mobility is low the alternative adjustment mechanism is higher unemployment as a result of lower activity levels. In both cases payments equilibrium will be furthered whereas the income disparities remain.

(1) T. SCITOVSKY, Economic Theory and Western European Integration, London, 1962, p. 80.

(ii) With capital movements things are even worse. Profit induced capital movements will constantly allocate savings in favour of the higher growth/lower risk regions. This will create cumulative interregional disequilibria.

It appears that in a currency union payments equilibrium through factor mobility is bought at the expensive of (cumulative) income and employment disequilibria. Unless compensating mechanisms and policies can be designed, currency unification coupled with free factor mobility is not a very attractive device. It will enhance continuous shifts of labour and capital from low productivity to high productivity regions. It is not necessary to dwell much further on trying to clarify the fundamental problem and the underlying mechanisms of causation. It is sufficiently spelled out in the literature (1), and the examples of Northern Ireland, West-Virginia and Southern Italy are regularly brought up in the discussion. They suffice to illustrate what one is talking about.

The objective of pursuing growth policies not at the expense of but to promote a more equitable distribution of income and wealth militates in favour of a Community regional and social policy as an integral part of a scheme for European monetary unification, particularly at a moment when quality of life concepts compete successfully for government attention with the quantity of material welfare created. EMU as a policy problem becomes a question of how to reconcile monetary unification with regionally balanced growth or put in other terms : is it possible to avoid solving the intra-union payments disequilibria without doing it at the expense of cumulative income and employment disequilibria.

The answer to this question offered at the Community level is the same as the one one gets at the national level. It stresses the need for assistance provided by the central regions to

(1) See p.e. W.M. CORDEN, Monetary Integration, Essays in International Finance, nr. 93, Princeton University, April 1972, pp. 13-16 and 25-34.

the periphery. Whether the policies involved are successful in dealing with the problems may be questioned if one remembers the persisting difficulties of the examples of depressed areas mentioned above. It is not our intention to pursue the problem of the efficiency of the policies involved. It will be assumed that well designed assistance policies can alleviate the difficulties.

3. Possible assistance devices include in the first place long-term structural policies intended to offset the competitive disadvantages of the low productivity peripheral regions. This can be done through regionally differentiated taxes and subsidies on the use of factors of production and by investment in public utilities, transportation and other basic facilities and social overheads to ensure that private profitability coincides with social utility so as to cause factors movements in socially desirable directions. One might add government initiated and state owned enterprises, but that is another story.

As far as the transitional costs in terms of unemployment are concerned, the original

Common Market approach envisaged in the Treaty of Rome included already the creation of a Social Fund to deal with the social (and economic) costs of increased unemployment resulting from increased competition and from the expected need for the reallocation of factors of production due to trade liberalisation.

The problem was conceived as a minor one. It turned out to be that way. Economic growth during the sixties was largely sufficient in itself to absorb whatever redundancy in labour force did develop as a result of the process of adaptation to the creation of the Common Market. Consequently, the size and the scope of the Social Fund has been rather small.

With the advent of EMU the situation is different. The need for a strengthened Community solidarity has to be advocated if the danger of significant unemployment in the weaker countries

of the Community should materialize as monetary unification progresses.

An enlarged system of Community financing of employment policies not based on the principle of 'juste retour' can contribute to a socially better balanced distribution of the adjustment burden which accompanies progress towards EMU. Two particular fields for action at the Community level might be sorted out : (i) Community assistance for retraining purposes of workers hit by structural readaptation needs, and (ii) an embryo of a Community unemployment benefit scheme. The financial transfers which this kind of policies would introduce, are at the same time a step in the direction of a European wide automatic adjustment mechanism comparable to the mechanism which does smooth out interregional imbalances at the national level and which does make the nation-state a feasible currency area.

As a start such policies need not be inconsistent with nationally differentiated absolute benefit levels. In a realistic scheme Community policies would only guarantee European minimum benefits to be supplemented by discretionary national efforts. Quite apart from their importance for EMU these policies would also improve the social image of the Community as distinct from its predominant concern with economic interests.

4. Divergent price, costs and productivity trends among the member countries are generally considered to be the major obstacle monetary unification has to overcome. To offset these divergent movements which will affect the competitive position of the countries involved it is argued

"that if countries do not permit themselves appropriate exchange rate adjustments, they impose on themselves losses essentially resulting from enforced departure from internal balance ... Assume that (in a complete exchange rate union) France and Germany are in internal and external balance, with the appropriate exchange rate relationships. Then money wages increase more rapidly in France, productivity uses more

slowly, or both conditions arise ; relative costs get out of line. The maintenance of internal and external balance requires France to devalue the franc relative to Germany's mark. If this is not permitted either France must deflate or Germany must inflate : one or both must depart from internal balance (1)".

Exchange rate flexibility, according to this - particularly British - look at EMU, is necessary to compensate for nominal wage rate rigidity if full employment at stable prices is to be maintained. The final stage of EMU is then impossible as long as labor costs per unit of output - the ratio of productivity increases to increases in money-wage rates - rise at different rates. To keep money wage increase in line with the rates of productivity increase Community-wide, i.e. to maintain the same rate of increase of labor costs per unit of output, will ultimately decide on the feasibility of EMU.

Prospects in this respect, however, are not very bright. If as a result of integration in general and monetary unification in particular, trade unions are becoming more international in their outlook leading eventually to some significant formal trade union integration, it is likely that intra-European nominal wage rate unification will be stimulated. If productivity differences, however, remain, fixed exchange rates relationships will have to give way, unless financial transfers beyond what is realistically envisigable are taken into account.

Even if one does not fully subscribe to Corden's extreme version of a wage standard theory, his analysis should remind us of the vital role the social partners have to play in any successful approach towards EMU. An increased degree of participation of the social partners in the decision-making process Europe-wide is needed if wage and price claims consistent with productivity gains have to be brought about. Scepticism with regard to a Community wide price and incomes policy militates in favour

(1) W.M. CORDEN, The Adjustment Problem, in L.B. KRAUSE and W.S.SALANT, European Monetary Unification and its Meaning for the United States, Washington, D.C., 1973, p. 163.

of the maintenance of some form of limited exchange rate flexibility until productivity unification will catch up with the expected wage rate unification.

Theo Peeters

March 25, 1974

THE LINK BETWEEN INTERNAL MONETARY POLICIES AND
A CREDIBLE INTRA-EUROPEAN EXCHANGE RATE SYSTEM

Closer exchange rate cooperation with enlarged mutual financial support in the form of the proposed Community Exchange Stabilisation Fund and the introduction of an authorized European unit of account, still falls short of a minimal comprehensive program for successful European monetary cooperation. Common action in the field of external monetary policy imposes constraints on the use of internal monetary policies at the national level as well. In a framework of generalised floating the objective is to organize a European monetary zone characterized by intra-E.C. exchange rate relationships differentiated from those with the rest of the world, though still far away from a full monetary union and absolute exchange rate rigidity. The acceptance of limitations and binding commitments for the conduct of external monetary policy, exchange rates in particular, remains a virtually impossible objective if it is not supplemented by certain pre-agreed limitations in internal monetary matters. Theoretical and empirical evidence is accumulating that even a floating exchange rate does not liberate a country from external constraints on domestic economic and in particular monetary policies.

The essence of the argument can be summarized as follows.

In a fixed exchange rate system a change in monetary policy in one country will effect the money markets of all the other countries in the system through reserve flows. Countries seeking to set low interest rates and easy monetary conditions will be deceived in their objectives through capital outflows to countries with higher interest rates and restrictive monetary policies. The monetary base will contract in the country looking for an expansion whereas the monetary base will expand in the country trying to achieve the opposite namely a contraction. Reserve flows under these circumstances do operate in a destabilising manner.

Independently set interest rates as an indicator of the desired monetary conditions for internal balance will easily turn into a self-defeating oligopolistic struggle. The conclusion readily follows : if monetary independence is to be achieved for sake of domestic economic objectives, it is necessary to let exchange rates vary.

In a fully flexible rate system reserve flows are absent. In order to keep reserve movements equal to zero, the exchange rate will react to divergent monetary policies of the different countries. In an interdependent world exchange rates become a function of monetary policy actions of all the countries in the system. An expansionary (contractionary) monetary policy will result, ceteris paribus, in a depreciation (appreciation) of the country's exchange rate. A depreciation (appreciation) of currency i is equivalent to an appreciation (depreciation) of currency j. The pursuit of independent monetary policies may be incompatible with stability in exchange rates.

In both the case of fixed and flexible exchange rates, the independent setting of targets for the monetary base by national authorities may lead to instability in the system, i.e. instability in reserve flows under fixed exchange rates and instability of exchange rates under flexible exchange rates.

An important policy conclusion readily follows : if either kind of instability is to be avoided, national monetary authorities should no longer set independent targets for their monetary base but accept rules of behaviour which do guarantee that each country allows external forces to influence its national monetary base. Inconsistent targets and thus instability of the system will hereby be avoided.

The specific meaning of setting an independent target for the national monetary base may need further clarification.

The monetary base (B) of an economy ("money issued by the government sector") is equal to the sum of international reserve holdings (R = the foreign component of the monetary base) and of

credit to the domestic banking system of the monetary authorities (D = the domestic component of the monetary base).

The following concepts and assumptions are used ¹.

- a. The monetary authorities of a country have full control over the domestic component of the monetary base. That is, by appropriate discount rate policies, reserve requirements or open market operations they can determine any desired level for the domestic component of B . Therefore, D becomes an appropriate monetary policy variable.
- b. Under a fixed exchange rate system the monetary authorities of a country have no direct control over the total monetary base (foreign + domestic component). The reason is that in an open economy with fixed exchange rates any monetary policy action leads to a partially or wholly offsetting movement in the foreign component of the base, *cet. par.*
- c. In a multicountry context, the balance of payments (= the change in the foreign component of the monetary base) of country i is the outcome of monetary policy actions of all countries of the system. As a result the monetary base of country i is affected by the monetary policies of all countries, except if country i successfully sterilizes changes in R , the foreign component, through opposite changes in D , the domestic component.
- d. In a fully flexible rate world the balance of payments of a country is always zero. However, the exchange rate reacts to monetary policies of the different countries.

Symbolically this can be illustrated as follows.

$$\text{By definition } B_i = R_i + D_i$$

$$dB_i = dR_i + dD_i$$

Only the internal component D of the total base is under the control of the national monetary authorities. If a country sets itself a target for monetary conditions in the economy, say B^0 , and

(1) P. DE GRAUWE, Monetary Interdependence in Europe under Fixed and Flexible Exchange Rates, Tijdschrift voor Economie, Nr.4, 135

the monetary authorities could assume a given value for movements in international reserves, say R^0 , it would suffice to set a target of the domestic component, D^0 , so as to achieve

$$B^0 = R^0 + D^0$$

But in a multicountry world with fixed exchange rates changes in the stock of international reserves of country i are the outcome of monetary policy actions of all the countries of the system.

$$\text{Thus } R_i = R_i(D_1, D_2, \dots, D_n) \quad i = 1, 2, \dots, n$$

$$\text{where by } \frac{\partial R_i}{\partial D_j} > 0 \quad \text{if } i \neq j, \quad \text{and } \leq 0 \quad \text{if } i = j$$

The feedback of changes in D in the domestic economy as well as in the rest of world have to be taken into account. A fixed target for B_i such that $dB_i = 0$, implies that $dD_i = dR_i$.

Under a fixed exchange rate system sterilisation techniques are thus necessary to achieve a given target for the national monetary base. These sterilisation techniques, which have been widely used in surplus and deficit countries, imply that external money creation (contraction) through a balance of payments surplus (deficit) will be compensated through internal money contraction (expansion) so as to maintain the domestic target for the total base B^0 . Changing the target for the domestic component of the base through open market operations, discount policies and monetary financing of the government deficit may induce further reserve flows through the impact of dD_i on dR_j , thereby again deceiving the target at the national level.

More important still, independently set targets for B at the national level in the different countries of the system can easily become self-defeating if each country tries to sterilize consistently the external monetary impulses and the independently set targets for B are not consistent. The result is a destabilization of the whole system.

A widely accepted view is that a country which lets its exchange rate freely fluctuate can isolate its monetary base from outside monetary disturbances. This view is generally based on the assumption that a country with a freely fluctuating exchange rate has no need for, and therefore does not hold, international reserves, putting $dR = 0$ by definition. The monetary base is then equal to domestic credit extended by the monetary authorities to the domestic economy.

It can be argued however, that if the assumption of zero holdings of international reserves is dropped, the monetary base of a country is affected by fluctuations in the exchange rate.

It can be expected that in a country with a fluctuating exchange rate the monetary authorities will continue to hold a stock of international reserves, be it for pure precautionary motives. However, even if this were not the case, it can be argued (e.g. as McKinnon has done ¹) that private demand for international reserves (foreign exchange) will be higher under flexible than under fixed exchange rates. The reason is that under flexible exchange rates the private sector, especially commercial banks, will have a higher need for transaction and precautionary balances in foreign exchange.

If international reserves are held by the private banking sector, the definition of the monetary base has to be modified. In that case the base which the private banking sector can use to expand domestic credit consists not only of currency and reserves held at the central bank but also of its (net) foreign exchange holdings. In other words the commercial banking sector has the choice of building up its **liquidity** position either by obtaining domestic central bank liquidity or foreign liquidity.

¹ R. McKINNON, Private and Official International Money : The Case for the Dollar, Princeton Essays in International Finance, no 74, 1969.

Exchange rate changes now directly affect the monetary base of a country, in the form of capital gains or losses for the holders of foreign exchange (i.e. monetary authorities and/or commercial banks). A depreciation (appreciation) of the currency leads to a capital gain (loss) for the net holders of foreign exchange. This will increase (decrease) the monetary base of the depreciating (appreciating) country ¹.

It follows from the preceding argument that a monetary policy action in one country will affect the monetary bases of all the countries of the system through exchange rate changes. In addition it has been shown that if there is not a minimum of coordination of domestic monetary policies a generalized flexible exchange rate system in Europe will be unstable ².

According to the preceding analysis greater stability of intra-European exchange rates as compared to the situation vis-a-vis the rest of world, critically depends on commonly agreed limitations on national monetary independence. A natural starting point in the direction of complementary supporting internal monetary policy measures for a differentiated European monetary zone is to be linked up with the sterilisation techniques used to offset the impact of reserve movements on the monetary base. A flexible discount rate mechanism could be used for this purpose : increasing discount rates in deficit countries and lowering them at the same time in surplus countries, not neutralised of course through open market operations or other discretionary monetary actions. Starting from a periodically revised set of monetary targets for each country of the Community, a code of conduct on domestic sterilisation policies would automatically adjust these targets upwards or downwards by only partially sterilising interventions in the exchange

1. The monetary authorities have the option to "sterilize" this capital gain (or loss) on their official reserves. However, there are many examples of monetary authorities using the proceeds of the capital gain from a depreciation to finance government budget operations.
2. P. DE GRAUWE, op.cit.

rate markets.

It is not the purpose of this note to suggest a fully operational scheme, but it is clear that the technical and practical difficulties to implement the in itself rather simple basic idea should not be underestimated. Yet the fact cannot be overlooked that national monetary authorities have often followed discretionary monetary policies inimical both to external adjustment and to domestic monetary stability.

Two principles for guiding policy action seem to be of particular importance.

- (a) Official intervention in the foreign exchange market should have a quantitatively significant impact on each national monetary base, in particular if it is the purpose of these interventions to achieve a Common European exchange rate pattern. In addition a symmetrical behavior between surplus and deficit countries in the E.C. is required. Only in this way can the monetary base of the union as a whole be stabilised. Present institutional arrangements in the snake e.g. are far from guaranteeing this symmetry.
- (b) In support of a symmetrical exchange rate policy, a market-oriented discount mechanism has a strong comparative advantage over open-market operations and over other more discretionary instruments of domestic monetary policy. Adequate rules of behavior on national discount mechanisms can be helpful in eliminating much apparent conflict between the need for international adjustment on the one hand and domestic monetary stability on the other ¹.

1. For more details see R.I. McKINNON, On Securing a Common Monetary Policy in Europe, Banca Nazionale del Lavoro Quarterly Review, March 1973.

Documents rédigés par A. SHONFIELD

Documents written by A. SHONFIELD

1. A European Community Balance-of-Payments Fund
2. The Aims of the Community in the 1970's

A European Community Balance-of-Payments FundThe requirement

The Community faces a new situation in the management of its balance of payments. During the first decade and a half of its existence the commercial relations between the member countries were eased by the assurance that they would collectively be in balance-of-payments surplus, on current account, with the rest of the world. There was therefore a high probability that each individual member country, so long as it managed its economy with reasonable prudence and did not have to cope with special structural problems, would have a good chance of earning a surplus on its commercial transactions outside the Community. This made it easier to take some of the risks attendant on the removal of trade barriers and financial controls required first for the creation of the customs union and then for the initial steps towards an economic union.

The new situation of collective balance-of-payments deficit on current account will almost inevitably produce a different mood among the member governments. The mood is likely to be averse to the additional risk-taking attendant on the removal of still more barriers to the movement of goods and money across the national frontiers of the Community. The key problem therefore is how to reduce the risks of big deficits in the overall balance-of-payments of member countries during the period ahead.

The proposal to mobilize the collective creditworthiness of the nine member states for the borrowing of large amounts of funds, both from the Middle East oil producers directly and from intermediaries handling the oil producers' surplus in the Eurocurrency market, is designed to meet this end.

It is worth observing that the reason why this matter has a new urgency in the mid-1970s is that the considerable disparities between the economic performances of member countries, in terms of productivity and control of domestic demand, show up much more sharply in a period when there is a strong bias towards a balance-of-payments deficit than in a period in which the bias is in the other direction. The difference between on the one hand Germany and Holland, with their expectation of staying in the black on current balance-of-payments account and on the other hand, Britain and Italy which look ahead to an extended period of being deeply in the red is very marked indeed. The outlook for the weak balance-of-payments countries is that their borrowing capacity will be progressively eroded.

Functions and composition

The Balance-of-Payments Fund (BPF) will be a collective agency of the central banks of the nine countries. Since its function is to draw in funds from outside the Community, for redistribution within, the paid-up subscription by the shareholders should be minimal; it might be limited, on the lines of the World Bank gold subscription, to 2 % of the capital. It would be paid in dollars or some other universally acceptable currency.

The main contribution of the central banks would be in the form of guarantees of repayment to subscribers to the Fund. It is assumed that the Fund will issue short and medium term instruments, and that after the first phase it will engage actively in refinancing these ^{by further borrowings.} In what circumstances is it to be envisaged that payments will have to be made to creditors outside the Community, so that the central banks' guarantee would be activated?

Two different types of case may be considered. An oil producer who has invested in the Fund cashes in his one-year bond at maturity and withdraws the money in order to spend it, say, in the Middle East. The second case is that of a financial intermediary, say an American bank, which takes its money out, again at maturity, in order to reinvest it, say in the United States. It is to be assumed that in the former case - the use of the money to purchase capital assets in a non-Western country - it will eventually return to the Western financial system, in the form of a deposit of some kind with a bank or finance house. The matter is simplified because, as is known, the few countries which together own the actual and prospective oil surpluses have confined their financial operations to some 30-50 international banks. The probability is therefore, at any rate for the immediately foreseeable future, that liquid funds withdrawn for the purposes of some capital transaction elsewhere will, after a not very long delay, turn up again in the circuit of the 30 or so big banks.

The problem therefore revolves round the second case - a withdrawal from the Community banking system to another part of the international financial circuit. We assume for the present that the banking consortium with the support of central banks operates a perfect recycling mechanism within the Community banking system, which ensures that no single bank is embarrassed in the conduct of its business by sudden withdrawals of oil producers' surplus funds and their transfer to another bank in the consortium. Further, it is assumed that there are no "leakages" from the Community consortium of banks to borrowers outside the Community system - or, at any rate, that such transfers take place only with the specific permission of the central banks. In principle therefore all capital sums deriving from that part of the oil surplus which finds its way back into the Community banking system is available for investment in the BPF.

What is plainly required is some kind of reciprocal credit arrangement between the European central banks operating the BPF and the US Federal Reserve System (and one or two other banking centres like the Japanese) to smooth out the effects of sudden transfers of funds. For this purpose the existing international swap credit system needs to be very considerably enlarged.

If at the same time there were an established market for the financial instruments issued by the BPF operating among the US big banks, there is no reason why a "leakage" caused by the transfer of oil producers' deposits from Europe to the United States should cause the central banks' guarantee to be brought into use. It might have to be, of course, if for example US bank liquidity was under pressure and funds were withdrawn across the Atlantic. But this is only to say that the European central banks will have to manage their monetary policy with an eye on the competition of the United States for international funds. It is obvious that if European interest rates are relatively low, they will not in any case attract the oil producers' deposits in the amounts required.

I am assuming in the argument set out above that the bulk of the oil surplus funds continues to come into the international financial system as bank deposits or other semi-liquid forms. Thus it is the banks which will be responsible for the greater part of the investment in the financial instruments issued by the BPF. These banks may need some kind of guarantee

from the central banks that as these deposits grow and are lent onwards to the BPF, they will not be penalized if they overstep the limits of any mandatory assets/deposit ratio. (The problem does not, I believe, arise in most countries with Eurocurrency deposits. But it might do so, as the Eurocurrency market expands still further and attempts are made to regulate it.)

The problem of "transformation".

Recent indications are that oil producers' funds which were initially very short-term are now increasingly being employed in longer term financial operations. If this process continues the problem of transforming extremely liquid deposits into market investments in BPF bonds and the like will not be as acute in 1975 and 1976 as it appears in 1974. The banks will be able to do much of the transformation on their own account.

However even if the difficulty grows less acute as the oil producers become more sophisticated and confident in managing an investment portfolio, at least part of the problem will almost certainly remain. This is because a substantial proportion of these rapidly growing funds is likely to continue to be held in a fairly liquid form. The United States, Japan and other creditworthy countries will be competing for long term investment funds, and it would be unrealistic to suppose that the Community will scoop the pool. Moreover the less developed countries, whose need is most acute and whose ability to meet

their increased oil bills the healthy functioning of the international economic system in part depends, cannot really be left to make do exclusively with funds derived from the shortest end of the capital market. If they are to be allowed a share of the medium term funds, it follows that the developed countries, and ~~most~~ especially the Community, will have to learn to manage with a larger proportion of liquid funds than they would normally regard as convenient.

In that case some arrangement will have to be devised by the central banks responsible for the BPF to cover the operations of commercial banks with an excessive amount of very short-term oil producers' funds. It will not suffice to leave this problem to the operation of the market, relying on the sharp decline in short-term deposit rates, which would occur in this situation, to correct the propensity of some of the richest oil producers to stay excessively liquid. Low rates of interest may not produce the result required when the marginal utility of money itself is extremely low. What the central banks might do in order to ease this problem is to issue some special form of short-term instrument, on the lines of a Treasury bill jointly guaranteed, which they will constantly refinance in what will be a steadily expanding market.

Once again the question arises about the circumstances in which the joint guarantee of the central banks would be likely to be called. That would happen, for example, if the

BPF having made a two year loan to France, found that it was unable to dispose of enough Community "Treasury bills" to meet its commitments to France, and so had to call on national currency reserves. But it is hard to see why such a contingency should arise in the ordinary way, assuming that interest rates are internationally competitive, because the money market is assumed to be supplied with a constant flow of new funds derived from the surpluses of the oil producers. Assuming the existence of an extensive currency swap network and a measure of coordination of monetary policy between the main financial centres (so that they agree in advance ^{approximately} how much international capital each is to acquire over a period), the only circumstances in which I can foresee a call on the collective guarantee would be one in which there were a severe weakening of the current balance-of-payments account of the Community vis-à-vis the rest of the world. If the member states of the Community persistently marked up heavy deficits against other non-oil producing countries, then the result would show up in a loss of national currency reserves and in a decline in the creditworthiness of the Community. In that case BPF bonds and short-term financial instruments would not be refinanced in sufficient volume through the capital market.

Size of the Fund

The concept of an "oil deficit" in a national balance-of-payments account is not an unambiguous one. Although it is possible to estimate the size of the aggregate surplus of the oil producers (i.e. that part of their earnings which will not be spent on the purchase of goods and services), it is not possible to calculate precisely what proportion of the total is properly attributable as a deficit in the balance-of-payments of any individual oil-importing country or group of countries. The best that can be done is to use the estimates of the prospective increase in the aggregate deficit of the Community which is due to the net increase in payments to the oil producing countries in the current year, and to work forward from there. The figure is estimated to be around 20 billion dollars in 1974. Several Community countries are successfully borrowing back, either directly or through intermediaries in the Eurocurrency market, a large part of the sum required to meet their deficits. It is hard to say how much of the required sum it will be possible to borrow in this way during the next three to four years, but it probably would be prudent for the Community to think in terms of covering at least half of the prospective deficit by collective means - say something of the order of 10 billion dollars a year.

This money will clearly be very unevenly distributed among member countries. It is likely to be heavily concentrated in any given year on particular countries, such as Italy during the year 1974, whose general capacity to borrow in the inter-

national capital market has been reduced for reasons which may have little to do with the oil deficit problem.

It is to be observed that if France and Italy were to improve their competitive positions sharply, so that they developed substantial trade surpluses with Germany, this would in the long run affect Germany's present unmatched capacity to attract funds from the international capital market. The point that is being made is simply that a reduction in the non-oil balance-of-payments surplus of any given country may reduce its ability - in conditions of intense competition in the international capital market - to obtain the capital funds that it needs to cover its oil deficit.

The management of BPF

The Fund will have the task of distributing the money at its disposal on the basis of some clear assessment of national claims, which is designed to ensure that the offsetting of oil deficits does not help to subsidise balance-of-payments deficits of a more fundamental character or those due to a failure of overall demand management. There is bound however to be an element of judgment in this process. It is therefore all the more necessary that the management of the BPF should be endowed with a considerable measure of independence.

The BPF should be a quasi-autonomous body with a Supervisory Council consisting of the governors of the nine central banks or their representatives. It would be in effect an instrument of the Monetary Committee of the EEC. Its board of management might be appointed jointly by the governors of central banks and the ministers of finance. In order to give its operations the flexibility that is required, the constitution of the board might follow the earlier example of the European Payments Union and adopt the rule of majority voting.

The staff of the Fund would be expected to be increasingly involved in the policy problems connected with the management of the balance-of-payments deficits of individual member countries. Machinery would have to be set up for the prompt and accurate reporting of capital movements which might affect the overall balance-of-payments of any country. The BPF staff would set certain performance criteria for national governments and engage in periodic consultations on economic policy matters related to these.

As a matter of principle, it is essential that the additional capital borrowed by the Community countries during the period when they will necessarily be in overall deficit on current account should be used in large part to finance additional productive investments. The strategic policy of the BPF must be to enlarge the productive capacity of the Community by a sufficient amount to allow it to repay during the 1980s the sum borrowed in the 1970s, and to do so while maintaining the continuing rise in the level of real incomes and consumption

of the Community. The condition for achieving this end is that the unrequited imports financed by the money derived from the BPF are not used to sustain a current level of consumption higher than that which would have been afforded, in conditions of full employment, if the oil producing countries had spent all their foreign exchange earnings on additional imports from the industrial countries. The delay of some years which will now intervene before these additional purchases of imports are made by ^{the oil producers} should be used in a systematic way by the Community to raise its productive capacity, in the field of energy and energy import-saving, as well as in conventional export industries, above the level that it would have reached in the 1980s without the capital windfall from the oil surplus countries.

July 1974

The Aims of the Community in the 1970s

It has been proposed by Robert Marjolin that as an essential next step in its progress towards European union the Community should create some new "independent decision-making capacity". The main purpose which would be served by such a move would be to establish a habit of joint political action which by-passed the administrative processes of nine separate governments. It must however be recognised from the start that there is an element of paradox in the proposal, since it is predicated on the assumption that these governments, on whose complaisance the reform depends, will be moved by the desire to by-pass themselves. There will have to be some very strong motives common to them all, motives which will also appear compelling to the mass of the voters on whom the election of these governments depend, in order to produce the desired result.

The experience of the 1960s

In what follows I shall try to identify what such motives might be during the period ahead. In order to do so it is necessary first of all to consider the fundamental question of the proximate aims of the European Community in the 1970s and 1980s. Too often the argument about the appropriate instruments for common European policies assumes that because the ultimate goal of European union remains what it always has been, the practical objects of the enterprise in the 1970s and 1980s will not differ materially from those of the 1950s and 1960s. The only changes that are allowed for are in the tactical choice of technical devices.

But to think in this way is to ignore the fact that a change in the objective conditions which influence national and international politics are likely to affect the operations of the Community in two ways. First, such a change may alter the order of priorities of governments and of the citizens who elect them. It is clear that the pursuit of the long-term aims of the Community, for example the effort to build up the authority of certain common institutions of the EC, has to compete for its share of a limited political input against other demands on the attention and time of governments, in circumstances when the competition of new demands is growing.

The second point is that changes in the international environment (by which I mean the whole conspectus of international relations, including relations between the superpowers) are likely to impose different constraints on the capacity of public agencies, national and international, to achieve their objects. Thus in an international climate of rapidly expanding trade and increasing freedom of capital movements, it may be much easier for the Community to secure the removal of trade and financial barriers among its member states than it would be if world trade were facing a sharp slow-down and many of the member countries were running into balance-of-payments deficits.

In fact, it is probable that the extremely favourable conditions for the creation of the European customs union in the 1960s created an erroneous impression about the role of unconstrained choice of objectives and of political will exercised in pursuit of them by the Community. The point that is worth stressing is that the Community chose objectives which fitted in well with the wider international economic and political environment of the time. The removal of national tariffs on industrial goods traded between the members of the Community did not in practice impose any serious constraints on the day to day conduct of business by national governments. In the economic conditions of the 1960s, with international trade increasing year by year by a multiple of the expansion of world industrial production, and with the United States balance-of-payments persistently in deficit, the additional opportunities for intra-European trade opened up by the customs union had the effect of raising the level of exports in conditions when the risks associated with a higher import bill were small. Apart from one or two brief interruptions, the balance-of-payments of EC member countries was strong and their currency reserves steadily growing.¹

It is also important to note that the international political context in which the Community erected its common external tariff was made favourable by the sustained effort of the leading industrial nations during the 1960s

¹ When balance-of-payments difficulties did occur, as for example in France in 1968, the French government was able to act with speed to impose import restrictions - and then to remove them almost equally speedily. The European Commission did express some complaint about the manner in which France acted; but it is fair to say that the existence of the customs union did not impose any significant constraint on the choice of short-term economic policies by the French government.

to reduce the general level of tariffs. The actual negotiations of the Dillon Round and the Kennedy Round in the GATT occupied about half of the decade of the 1960s. And the result of these exercises was to reduce the inherent discriminatory trade effect exercised by the Community on outsiders. Thus the international climate for the EC's special efforts on behalf of its own members was improved by the feeling that world trade barriers were being reduced all round - at least until the end of the Kennedy Round in 1967. The Community appeared to be swimming strongly with the international tide - a little ahead of the other swimmers.

It is worth comparing this experience briefly with the failure of the efforts at financial integration which occupied the Community from 1969 onwards. One of the troubles with the Community's monetary plans was that they failed to connect in any constructive manner with the urgent needs of international policy-making in a period of extended crisis caused by the weakness of the dollar. Moreover, the plan for a rapid approach to monetary union, and the devices introduced to achieve that end, penetrated deeply into the conduct of domestic economic and financial policies of member countries and threatened to impose, all at once, a very considerable constraint on the independent decision-making power of national governments. And this happened at a time when several of the latter were already finding the changed international financial environment extremely hard to cope with.

One of the major lessons that should be drawn from the Community's first attempt to arrive at Economic and Monetary Union, by means of the devices proposed in the Werner Plan, is that the broader international environment in which the Community's aims have to be converted into joint action by the member states must never again be taken for granted. Nor must the member governments be subjected to greater demands for the subjection of short-term national interest to longer-term purposes of Community policy-making than can be shown to be necessary in terms of concrete and clearly perceived objectives of political and economic policy. Monetary union à la Werner was a technician's scheme; effective political backing for it was neither sought nor obtained inside the member countries. Predictably, when the technical requirements came into conflict with national political imperatives, there was no one on the spot who would speak up for the Community interest.

The Contemporary International Context

The present international environment is drastically different from that of the 1960s, and the cause of the change is the energy crisis. This is likely to affect the whole course of economic policy in the Western industrial world during the rest of this decade and possibly during the opening years of the next. The duration of the effect depends in part on the speed with which effective collective action is taken to reduce the dependence of the advanced industrial countries on an uncertain source of supply of energy in the Middle East. But even on the most favourable assumptions this dependence will continue until the early 1980s, which probably is, in any case, the limit of the time-scale for the formulation of European Community policies.

The immediate effect of the change on Western Europe is to impose considerable reductions in the growth of real income. This follows in part from the sharp deterioration in Europe's terms of trade with the oil producers. Beyond this, there is the more profound effect of the need for a massive increase in investment both in substitute forms of energy and in energy-saving equipment. To the extent that this requirement is met speedily - as it undoubtedly needs to be in order to produce some "demonstration effect" which might influence the price of Arab oil during the critical years of the middle 1970s - it will introduce a significant demand for additional savings. This again implies a cut in real disposable consumer income.

However, the most urgent need of all is that the Western nations, when embarking on these policies of saving and adaptation, should avoid the temptation to engage in any form of competitive deflation, in order to improve their individual balance of payments. This need sets the terms of the new international political context in which any Community plans for further integration in Western Europe will have to operate. We have

moved from a regime of largely unrestrained competition for markets among industrial nations in the 1960s² to a situation in which the degree of competitiveness permissible for the purpose of overcoming a balance-of-payments deficit has to be subject to international agreement.

I say "has to be", because it is already clear that the only alternative to an international compact outlawing measures that would normally be taken in order to eliminate a balance-of-payments deficit - such measures as currency devaluation or the sharp deflation of demand for all forms of imports - is a general retreat from the present open world system of international trade and finance into a regime of national restrictions and beggar-your-neighbour policies. The stakes are visibly very high. That is what makes it reasonable to suppose that in spite of the unusual demands which the new situation will make upon the capacity for collaboration among Western industrial countries, a practical response will be forthcoming.

It is worth pointing out, moreover, that if such a response is not elicited, and the erosion of the existing open international system of the industrial world follows, the context in which the Community will operate will once again be entirely different from anything which it has experienced before. Its task will then be to avoid the spirit of sauve qui peut among the member countries from reversing such progress towards a common market as been achieved to date. This is a scenario which I do not propose to explore further in the present paper.

What needs to be stressed is that in the circumstances which I am postulating here the problem for international policy-making among advanced industrial countries will no longer be one of allowing market forces to operate with as little restriction as possible, subject to certain rules of the game (like MFN, anti-dumping, avoidance of quantitative restrictions). It will be a matter of agreeing on the upper and lower limits

² Some exception has to be made for the case of Japan and for some other "voluntary export controls" applied by other nations, e.g. on European steel exports to the United States.

of a deliberately accepted balance-of-payments deficit on current account, and then on the means of recycling the capital funds flowing into Western money markets (representing the unspent Arab oil surpluses) to bolster the reserves of countries which come under especially severe pressure.

The Community's distinctive task

I have done no more than indicate in the roughest possible way some of the features of international economic relations during the period ahead, on the assumption that the vast balance-of-payments deficit on their oil accounts which the Western industrial nations now face is managed cooperatively. There may be disagreement about the details of the scenario. The point that is important however is that any scheme for Community collaboration which is designed to mitigate the effects of the oil situation on member countries will have to take account of the fact that collaboration required of Western nations, both outside and inside the Community will be on a scale and of a depth greater than anything that we have experienced in peacetime. For the purposes of the present argument I assume that the minimum requirement is met. The question for the Community is then - what forms of closer partnership, implying a more profound collaboration in the management of the consequences of the oil problem, could it most usefully adopt in order to safeguard the interests of the peoples who belong to it?

The form of the question already determines a large part of the answer. If the Community has one characteristic which distinguishes it from other forms of association among Western nations, it is that it purports to share more of both the burdens and the advantages accruing to its member countries. That defines the terms in which it approaches the problem of the management of scarce resources and balance-of-payments deficits in the new era. But how in practice is this particular task to be done? Its nature contrasts profoundly with the earlier experience of the Community, when it set out to maximise surpluses by the removal of restrictions on the

movement of goods, money and persons. This time around its main concern will be to minimise the social damage and economic hardship that will be caused by the effort to adapt and remould industrial structures, in a period when the rate of growth of real disposable income will be significantly reduced.

The first point to be observed is that even assuming a high degree of Western collaboration in the management of our balance-of-payments problems, e.g. along the lines of the Witteveen proposals (Rome, January 1974), the funds that are likely to be made available through the recycling of short-term capital will not be sufficient to meet all the needs of weaker or more vulnerable countries. What the Community members therefore require is a supplementary resource to help them manage their affairs more effectively in common.

It is proposed that this should take the form of a new and greatly enlarged European Fund, made up of the currencies of member countries and of a portion of their international reserves. Its task would be to manage the financial consequences of the oil balance-of-payments deficits of member countries in such a way as to minimise their effect on production and real incomes. The Fund is referred to in what follows as the Balance-of-Payments Fund (BPF).

The BPF would differ from existing or previously contemplated Community agencies in the following particulars. First of all, its initial scale would be much larger; the starting capital would have to be upwards of 10 billion dollars. Since its essential function would be to provide capital funds to make good the deficits incurred on current balance-of-payments account resulting from the action of the oil exporters, the Fund would have to have a principle of automatic expansion built into it. This marks the second difference. All the calculations suggest that the combined oil deficit on current account of EC countries will be greater in 1975 than in 1974, and that there is little likelihood of any reduction in 1976. Thus for at least three years the BPF will need to have the assurance of an increase in the capital funds at its disposal of a greater amount than the initial capital subscription.

This leads to the third characteristic function of the BPF, which is to act as an intermediary for funds drawn from outside the EC. It would be empowered to borrow funds directly from Arab oil producers or from financial institutions in the United States and elsewhere with which such surplus funds were deposited. It would also issue its own loan stock for public subscription through the Euro-currency market.³

The fourth function of the BPF would be to provide a channel for credits between one EC country and another. These would be in part short-term credits designed to smooth out abrupt changes in the flow of funds to particular countries. The risk that political frictions might cause huge shifts in accumulated Arab assets from one financial centre to another needs to be insured against by a greatly reinforced mechanism for recycling of money. But there is in addition the clear prospect that there will be differences over the next 3-5 years in the capacity of individual member countries to cope with the balance-of-payments effects of the energy problem. These differences may result from the possession of more or less indigenous supplies of coal, gas and North Sea oil, as well as from more general factors of industrial efficiency and export competitiveness. Thus for example, both Germany's and Britain's balance-of-payments deficit on current account may be relatively small in the late 1970s, - because Britain has advantages on the first count and Germany on the second count. One of the purposes of the BPF would then be to ensure that other EC countries like France and Italy had a prior claim on British and German funds resulting from an overall balance-of-payments surplus (on combined capital and current account) which these countries should be able to achieve more readily in these circumstances.

³ These suggestions follow the same lines as those put forward by M. Giscard d'Estaing in a recent interview with EUROPA (published by The Times, Le Monde, La Stampa and Die Welt). See The Times, March 5, 1974. His proposal was that the European central banks in cooperation or the Monetary Cooperation Fund should issue an "annual medium-sized loan of some thousands of millions of dollars". He thought that subscriptions to such a loan should be confined to the central banks of the oil producing countries. It seems to me that something more flexible, designed to appeal to a variety of investors, including other individuals and commercial institutions in the Middle East with surplus funds at their disposal, might be considered.

A long-term investment fund

I believe that in addition to the European Fund for the adjustment of balance-of-payments disturbances, there is scope for a new European investment fund concerned with the financing of large scale capital programmes (a) of energy saving; (b) for the development of alternative energy supplies in Europe. This will not be described in the present paper. It is simply mentioned here because it is seen as a complementary organisation - again with a large measure of independent management - to the Balance-of-Payments Fund described above.

It would be the financial component of a European initiative corresponding to the United States Energy Programme. The aim of this programme would be, like its American counterpart, to achieve a certain stated measure of self-sufficiency in energy supplies of all kinds by the beginning of the 1980s. Again a significant problem in securing results quickly in Europe may well turn out to be that the financial resources which could be mobilised are not made available in the places where the potential for substantial increases in energy supplies exists. This is certainly true of the British coal industry for example. There are other potential sources of supply, not all of them necessarily located within the geographical boundaries of the Community, which could help to relieve Western Europe's energy problem during the critical years up to the end of the present decade.

It is worth remembering that the demonstration of a European capacity to provision itself with substantial amounts of alternative energy in the long term is likely to have a significant effect on the price of Middle East oil in the middle and late 1970s. The scale and effectiveness of the European Investment Fund proposed here would be an important element in bringing the price of oil charged by OPEC down to its long-term supply price sooner rather than later.

Andrew Shonfield
March 1974

M

Document rédigé par N. THYGESEN

Document written by N. THYGESEN

1 . Community Coordination of Exchange Rate Policy

October 1974

Niels Thygesen

COMMUNITY COORDINATION OF EXCHANGE RATE POLICY

From a Community viewpoint independent and uncoordinated floating of the currencies of member countries is unacceptable. At the more technical level it greatly complicates the operation of the Common Agricultural Policy and it creates severe distortions in the financing of all Community activities. Thus floating has strained, very nearly to breaking point, cooperation on matters essential to the functioning of the Community as we know it to-day. More generally, intra-Community exchange rate changes have shifted the burden of adjustment between member countries in a way that has often been felt by those not initiating the changes to be unfair. Floating has undermined the limited and frail efforts at coordination of short-term policies by making such efforts look superfluous. Discussions on economic policy in the Council of Ministers and in the committees serving the Council in these matters are presently vague and unspecific even in cases where Community financial support is essential for a member country and joint recommendations would accordingly carry weight. Member governments fail to give prior notice of important new policy initiatives. These attitudes and disappointments in turn serve as arguments for not cooperating on intra-Community exchange rates. Around 1970 it was a widely held opinion that closer cooperation in this area would trigger a virtuous spiral of progress in policy coordination and monetary integration. The experiences since 1972 demonstrate that this spiral is capable of working powerfully in the opposite direction as monetary

fragmentation through floating and failures of policy coordination feed on each other.

It is easier to diagnose this unstable and alarming process than to suggest how to break it. Yet there are some factors at work which make unqualified pessimism unwarranted.

The first is that those member countries which have allowed their exchange rates to float downwards have come to doubt seriously the advantages which further devaluation through individual floating could bring. Devaluations in the four member countries which are presently floating - most notably Italy and the UK - have accelerated inflationary developments directly through import prices and indirectly through price expectations. To the extent that a dampening of inflation is given increasing priority in domestic policy, downward floating will have to be constrained. Furthermore, the contribution of devaluation to the reduction of current account deficits has, to say the least, not been spectacular; such effects are in any case so slow in coming that they offer little comfort in crisis situations. The stabilizing effects on the capital account of downward floating have also failed to emerge, as exchange markets have tended to extrapolate recent trends rather than a temporary deviation from an equilibrium.

It should not be pretended that these experiences, important as they are, will induce the currencies presently floating to return to a previous orthodoxy of pegging or to a regime identical to that practised by the five members that remain in the "snake". Nor is this necessary; the Werner Plan and other documents which inspired the earlier designs were conceived on the background of far greater stability in the world surrounding the Community than the turbulent reality of 1972-74. Present efforts should not be evaluated against an overly ambitious background; exchange rate cooperation in the second half of the 1970's can be less rigid than even the initial stage of the

Werner Plan and still make the Community appear as an island of cohesion in a world of instability.

The second factor which offers some hope is that the criteria for exchange rate adjustments conducive to international equilibrium and the various available mechanisms of intervention are better understood now than they were a few years back. At the level of principles, the work done in 1972-74 at the International Monetary Fund on the Reform of the International Monetary System has clarified a number of issues. Part of the subsequent comments discuss to what extent the proposed reform could apply to regional exchange rate cooperation such as that of the European Community; it will be argued that some of the proposed criteria and procedures could usefully be applied to intra-European exchange rates and to the dollar exchange rate.

The third and decisive factor is the push of events. The realization that the common element in current problems is very large encourages a reevaluation of the risks inherent in "going it alone". If most member countries are faced with massive current deficits the likelihood of any one country being able to get away with actions which shift part of the deficit to other members without provoking retaliatory measures from them is diminishing appreciably. Actions taken jointly, though difficult to arrive at, are more likely to have the desired effects. Coordinated actions in a wider group of countries, including in particular the United States, do not appear realistic. The United States seems destined to be preoccupied for some time with domestic economic issues and is well placed to act accordingly; other countries offer no real alternative to intra-community cooperation. This does not imply that all problems can be re-

solved at the regional level; none of the major ones - inflation, external deficits, energy supplies and recycling - can. But Community coordination is an essential stepping stone for making an effective start for attacking all of them.

In the exchange rate field the need is to find a compromise between individual floating and the rigidity of pegging à la Werner. The compromise has to be found in operational criteria for exchange rate adjustments inside the Community and vis à vis the dollar and SDR, the emerging international numéraire. The following three sections comment briefly on long- and short-term criteria and on their implications for domestic monetary management in member countries.

Longer-term criteria for the appropriateness of exchange rates

The operational provisions for the management of floating⁽¹⁾ stipulate that the International Monetary Fund should exercise supervision so that a floating currency does not "move outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of members..." The essential element is the medium-term norm for rates. A few years ago a confident answer would

(1) Annex 4 to Outline of Reform, International Monetary Fund, Committee of the Board of Governors on Reform of the International Monetary System and Related Issues, June 1974.

probably have been given to doubts about the feasibility of arriving at such a norm and the language chosen would have been less guarded. The exchange rate adjustments embodied in the Smithsonian Agreements of December 1971 were fairly closely in line with what international agencies - the OECD and the IMF - had calculated to be required to bring the current accounts (adjusted for cyclical differences in activity of the main countries) into approximate balance over a 3-year period, i.e. by late 1974. The basis for these estimates was the responsiveness of foreign trade in these economies to changes in relative prices adjusted for effective exchange rates as they were estimated from models of world trade over the previous 10 to 15 years.

The confidence in such procedures has been severely shattered by the events of recent years. Speculative capital flows, fed by the market's misapprehensions about the length of the time lags involved in balance of payments adjustments, had washed away the Smithsonian Agreement in little more than a year (and sterling's adherence ^{to both that and to the "Snake"} /in 6 months), well before divergent inflation rates and, above all, oil price increases played havoc with the medium-term outlook for countries' external position. Nevertheless, the international community and the European Community in particular, can ill afford to discard all of the elements of rationality which made their short-lived appearance in international exchange rate cooperation in 1970-71.

The first essential step is for the Community to review critically member countries' balance-of-payments prospects for the medium term; 1978, which has been the focal year in last winter's work on the implications of the higher energy prices, or 1979 might be chosen for

reference. The forecasts should (i) assume normal high capacity utilization in the member economies; (ii) incorporate estimates of cost and price trends and (iii) be based on current exchange rate constellations; they should be made internally consistent. The forecasts are likely to diverge from the aims of individual countries, and the crucial phase in the Community's review will be taken up by discussions of (1) how the aims can be made mutually consistent and collectively realistic, and (2) how the remaining imbalances could be either financed by a recycling mechanism (possibly also by movements in reserves) or eliminated by different demand management policies and for exchange rate adjustments. These discussions therefore tie up very closely with the medium-term recycling facilities; the formulation of aims will depend to an important extent on the smoothness of recycling. Most member countries - and the Community as a whole - will be faced with large current deficits in the late 1970's; the simple assumption of 1970-71, viz. that most countries would aim to be at least in basic balance over the medium term so that one could proceed to estimate an equilibrium constellation of rates is inappropriate. What is required is a judgment on a set of rates which, given the concerted external aims and active demand management policies, would tend to push external positions close to aims.

It is important to underline that all references, in the above to exchange rates are to effective, i.e. trade-weighted rates. Once a consensus has been reached on the adjustments in effective rates which appear to

be required of member countries individually the basis for a review of intra-Community rates is available. If the structure of foreign trade of member countries were approximately similar, the implications for intra-Community rates would be straightforward. In fact, they are sufficiently different to create serious problems for a joint float even in cases where the need for effective rate adjustments is of the same order of magnitude⁽¹⁾. The fact that joint Community movements vis-à-vis the rest of the world, and the dollar in particular, have rather different implications for member countries has not been sufficiently stressed. Thus the 1973-weakening of the dollar was more important to the United Kingdom with her large dollar area trade than to other members and the joint upward float of the snake currencies during much of the year would have implied an effective re-valuation of sterling on such a scale that the strain would probably have become intolerable if the UK had still cooperated in the snake. Similar comments apply to the recent period of a weakening dollar. By a reversal of this reasoning, a period of rising strength of the dollar and fixed intra-Community rates will entail a larger effective depreciation of sterling than of other member currencies.

-
- (1). Assume that the Community consists of two equally large groups of members, A, which does two-thirds of its trade with the dollar area and the remaining third inside the Community, and B, the trade proportions of which are the reverse. Assume further that both groups are faced with prospects of deficits by 1978 making a depreciation in effective exchange rate terms of 10 per cent seem advisable. If the Community by a joint float manages to depreciate all its currencies by 20 per cent vis à vis the dollar (rest of the world), Group A will effectively have devalued by more than 13 per cent and should tend to move beyond target while Group B will effectively have devalued by less than 7 per cent and is likely to find itself short of target.

The translation of effective rate change requirements into Community action both externally and internally is emphasized here, because it has, despite its obviousness, only rarely been faced explicitly. Yet it seems very important, particularly if one wants to reintegrate the present floating currencies into Community monetary cooperation. The crucial step is to restore exchange rate adjustment as a prime matter for Community review and consultation; this should in itself tend to minimize intra-Community changes. The point is not to eliminate such changes though this should be retained as a distant aim. By starting from apparently required changes in effective rates and developing the implications for intra-Community rates from there, recommendations would become more persuasive. At the same time, members with a structure of foreign economic relationships untypical in a Community context may feel assured that their problems are taken into account as legitimate grounds for not observing intra-Community rate stability. For these reasons the procedure seems more satisfactory than the more traditional approach of starting from an "average" Community viewpoint and assuming internally rigid rates.

The above argument further suggests that it would facilitate discussion of exchange rate issues to formulate explicit Community policies vis à vis the dollar and the SDR. The notion of a "Community level of the dollar" lacks precision in the absence of a well-defined basket of member currencies making up an authorized unit of account. Such a unit, serving initially as a means of settlement and gradually also as a medium of intervention, is proposed as a useful step for a number of reasons in the Group's report. As long as it exists only as a unit of account, intervention against the dollar would have to take place in one of the national currencies and rules of thumb would have to be developed

for such interventions. A band of permissible variation against the dollar would be set up, subject to revision on an annual, possibly semi-annual, basis; the band - of approximately the width of $4\frac{1}{2}$ per cent contained in the Smithsonian Agreement - would move gradually towards the level implied for the dollar by the medium-term norm for effective rates. The band would be made public to give guidance to exchange markets. Revisions would be made in annual or semi-annual steps of about half the width of the band to prevent sharp discontinuities in rate changes. Whenever some member currency tends to break through this crawling band, say because of large capital flows across the Atlantic, the authorities of that currency would intervene on behalf of the Community.⁽¹⁾

To summarize this review of longer-term criteria, the main steps would be to

- (1) estimate and make consistent the prospects for cyclically-adjusted annual balances at existing exchange rates and likely trends in relative prices of tradeable goods for a target period about three years hence;
- (2) review and make compatible the overall balance of payments aims of member countries for the same target period;
- (3) decide on the implications for effective exchange rate adjustments over that period,
- (4) make provision for an exchange rate policy for the next 12 (or 6) months in the form of (a) a band of permissible variation for the dollar and (b) intra-Community adjustments; and

(1) The Community nature of such interventions might be underlined by a scheme for sharing any exchange risk among members. Interventions in dollars would be reported to EMCF; the Fund itself need only be a book-keeping agency.

- (5) make arrangements for sharing the exchange risks inherent in interventions in non-Community currencies (dollars).

Short-term management of exchange markets.

While the previous section has dealt with the longer-term framework for Community exchange rate policy the following comments apply to day-to-day or month-to-month management. Without going into the technical complexities of intervention systems at all adequately⁽¹⁾, the main issues may be reviewed by surveying in which respects the remaining exchange rate cooperation between five members - the so-called mini-snake - could be improved so as to serve as a model for all member currencies.

On the whole the experiences of the mini-snake have been surprisingly favourable. It has proved possible to operate the arrangements with rather minimal interventions in Community currencies despite marked differences in the balance-of-payments prospects, inflation rates and policies of the participants. Though this is no doubt in part due to temporary and accidental factors weakening the Deutschemark, notably the foreign exchange losses reported by some German banks, there can be little doubt that the minisnake has had a calming effect on exchange markets which has benefited at least the smaller participants. The knowledge that virtually unlimited resources were available to support individual currencies has undoubtedly been an important stabilizing factor.

The present width of the intra-Community band of 2-1/4 per cent was designed in early 1972 to achieve symmetry in the potential variability over time of any

(1) For a careful review see Helmut W. Mayer "The Anatomy of Official Exchange-Rate Interventions", Princeton Essays in International Finance No. 104, May 1974.

member currency vis-à-vis the dollar and other member currencies. As long as the dollar is floating and has ceased to be the intervention currency, the present width has no claim in logic. It is, however, proposed in the previous section that a crawling tunnel for the dollar is an important element in a longer-term strategy for Community exchange rates. If such a tunnel reappears, the intra-Community snake should once more be adjusted to half the width of the dollar band. But even if it does not, it is not easy to justify a snake much wider than the present one. Its stabilizing effect on exchange markets would be diluted as the risk of sharp shifts in the relative position of currencies inside the snake increased. With the authorities committed to a no intervention policy inside the snake such shifts could gather momentum and foster destabilizing speculation.

Since the possibility of sharp fluctuations is already non-negligible in the present arrangements it might be envisaged to supplement them by rules on maximum day-to-day movements, say one half per cent at most, of any two member currencies relative to one another. Thus the authorities of any currency tending to appreciate relative to some other member currency by more than the maximum would undertake to support that other currency; alternatively, though less in a Community spirit, these stabilizing effects could be achieved by setting limits to daily fluctuations in dollar rates (in principle half the width of the desired intra-Community limits).

If daily changes were limited to the above maximum there would still be the possibility that they might cumulate to an undesirable extent over, say, one month. To prevent such movements from occurring one might adopt intervention rates of the simple type suggested in the Group's report, e.g. by limiting the change in the cross rate between two member currencies to the difference in inflation rates (measured primarily by indices for tradeable goods) between them.

A further improvement in the functioning of intra-Community arrangements would be to abandon the principle that settlements of debt should be made in proportions ..

corresponding to the composition of reserve assets of the debtor. Once the Community has a policy on the dollar rate, settlements in dollars should become more acceptable; and at a minimum gold would have to be formally removed from the settlement rules as long as its monetary position is uncertain, as has now been recognized by the removal of gold from transactions with the IMF.

Intra-Community intervention rules would no doubt be simpler if they could center on a European unit of account.

However as long as some member currencies are floating independently, the value of the basket of currencies that go into the unit of account will be subject to considerable fluctuations, complicating interventions and settlements. If all currencies adhere to a snake of modest width, the composite intervention currency becomes more feasible, but at the same time less important. However, there are advantages, mainly of a psychological kind, in authorizing a unit of account which may justify its adoption at a stage where it is technically premature.

These and other matters relating to the functioning of the snake and the prospects for enlarging it to encompass the French franc and other currencies presently floating have long been under discussion in the Council of Ministers, the Committee of Central Bank Governors and the Monetary Committee. The technical problems, though difficult, seem manageable.

Implications for domestic monetary management

It has long been recognized that coordination of exchange rate policy imposes constraints on the use of

national monetary policies. Divergent policies among member countries would give rise to large capital flows which lead to instability in their international reserves and are likely to undermine the structure of exchange rates. Closer exchange rate cooperation therefore implies that the participants refrain from formulating and pressing independent targets for their monetary policies.

The simplest prescription would be for countries to gear their monetary policies primarily to a collectively agreed aim for their external balance. Since it was seen to be a prerequisite for the successful operation of exchange rate coordination that member countries external aims were mutually consistent, such a strong prescription would be stabilizing. But as would clearly go too far; several member countries, Germany and France amongst others, have found monetary policy to be too useful for domestic purposes to warrant its gearing to external objectives only. The authority for monetary policy may in the long run be transferred to the Community level, but this is not for the near future.

Fortunately something less ambitious seems to be sufficient, at least for complementing the type of exchange rate coordination envisaged here, which retains some scope for adjusting rates. Above all, there is a need for exchange of information prior to any major shifts in a member country's monetary stance, preferably for joint consultations on the monetary budgets of individual countries; in its absence a period of destabilizing and competitive measures is likely to follow. When countries interact significantly with each other it is essential for each country to have a good idea about what the others are planning to do and, indeed, what they are likely to do in response to a policy change in the country itself.

It is tempting to look for simple rules that countries would be asked to conform to, say approximately parallel growth rates in the monetary base or broader aggregates such as the money supply. Attempts in the past, notably in the fall of 1972, of bringing money supply growth rates in line were not successful. Though such attempts would no doubt have had helpful effects, they were rightly considered too mechanical. A similar fate would probably overcome attempts to-day of introducing similar rules of behaviour. Some member countries either do not take their money supply seriously as a main determinant of their internal or external position or find themselves unable to control the monetary aggregates over shorter periods of, say 3 to 6 months. One may regret this state of affairs - and there are good grounds for emphasizing the role of monetary factors - but it has to be taken into account.

This leaves any prescriptions rather vague. Work is only beginning on the possibilities of harmonizing monetary instruments. Harmonization in this sense seems to go beyond what is required for assuring that policy effects - the thrust of monetary policy - do not go out of line. In the meanwhile some understanding on refraining from complete sterilization of the external impact on the monetary base and domestic monetary aggregates seems the most constructive step; a proposal along these lines is argued more fully in the Link between Internal Monetary Policies and a credible Intra-European Exchange Rate System (Annex K, page 133).