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COMMON MARKET OFFICIAL SAYS MORE THAN CURRENCY REALIGNMENT IS NECESSARY TO STABILIZE INTERNATIONAL MONETARY SYSTEM

WASHINGTON, D.C., January 19 -- The effectiveness of currency realignment in stabilizing the international monetary system will depend upon subsequent domestic policies of all countries, especially those suffering a fundamental disequilibrium in their balance of payments, according to a Common Market official.

Speaking before the European Parliament in Luxembourg yesterday, Raymond Barre, Vice President of the Commission of the European Community, praised last month's Group of Ten accord realigning industrial countries' currencies, including the dollar, and removing the U.S. 10 per cent surcharge. He warned, however, that currency realignment is not the only step necessary to stabilize the international monetary system.

"Changes in parity will have a limited effect in cases where a disequilibrium in the balance of payments is due to structural or non-economic factors," Mr. Barre said.

Mr. Barre suggested three problems which must be considered before the complete reform of the international monetary system can be achieved:

- the return to a certain degree of convertibility of the dollar;
- the financing of the U.S. balance of payments deficit;

- and the control of destabilizing short-term capital flows which have for so long disturbed the international monetary system.

Mr. Barre pointed out that agreeing to major currency realignments was a sacrifice on the part of the Community, especially at a time when the Six are facing domestic economic difficulties. He said that while the United States is expecting a growth rate in gross national product of from 5 to 6 per cent in 1972, the gross Community product will grow by only 2.5 to 3 per cent. (The Community growth rate in 1970 was 5.5 per cent, and its estimated 1971 growth rate is 4 per cent.)

By revaluing their currencies, Community countries are essentially granting U.S. exports more favorable entry into the Common Market despite a significant annual deficit in trade with the United States, he said. (The United States had a $2.4 billion surplus with the Community in 1970, and has had an annual average surplus of $1.7 billion with the Community since 1958.)

Mr. Barre emphasized that the U.S. trade position is being strengthened by the dollar's devaluation and the currency revaluations of its major trading partners. However, the major factor in the U.S. balance of payments deficit, long-term capital flows, is not being remedied, he said.

For these diverse reasons, the Community is continuing to safeguard its interest in the negotiations currently taking place between the United States and the Community, Mr. Barre said. He re-emphasized that these negotiations and future negotiations will be based on the principle of "reciprocity and multilateral concessions."

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