SPEECH BY THE RIGHT HON ROY JENKINS, PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES TO THE OVERSEAS BANKERS' CLUB - MONDAY 6 FEBRUARY 1978 - GUILDHALL

In replying to the toast to the guests this evening, I should like to speak to you about a single major theme, namely the problem of international monetary stability and the potential role of the European Community in sustaining it. This is, I accept, a solemn enough subject at the present time, but I hope it will not be too solemn for an after-dinner speech. But first, let me say how delighted I am to be here. I am most grateful to the Overseas Bankers' Club for inviting me and happy that the occasion takes place in Guildhall. I have naturally spoken here on a number of occasions before as a British Chancellor or Home Secretary. But those occasions were in a sense normal and expected. To be here as President of the European Commission is far from being an automatic honour and therefore all the more welcome.

It is from that perspective, the perspective of a Community of 260 million people responsible for 40 per cent of the world's trade that I should like to talk to you both about the historical setting and the future prospects for the international monetary system.

The historical position is clear enough. At Bretton Woods thirty-four years ago a system was set up by which the dollar became the anchor currency of the world. At that time other countries undertook the obligation to support their own currencies so that they did not fluctuate, except within narrow and defined limits, against the dollar. The United States did not have this obligation. Its responsibility was the wider one of maintaining the only currency still linked to gold and of being at least theoretically willing to pay out gold for dollars whenever other countries asked for this. There were, of course, alternative systems available - the United States could have accepted Keynes' plan of 1944 for a world clearing union. But the United States chose otherwise. With the perspective of history, I believe that this was a decision which provided the world with a system which worked, not perfectly of course but on the whole very successfully for a generation. It was the fastest period of trade and income growth in history.

But as we know, the dollar anchor began to drag against the stream not only of international monetary and economic fluctuations but of internal American doemstic problems. The strain became too

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great even for a currency backed by the vast resources of the American economy. It began to suffer from some of the pressures of over-commitment which had afflicted sterling in the early post-war years. The 1968 gold crisis began a series of troubles for the dollar which gathered momentum up to the autumn of 1969 and then paused, but only briefly before the system finally cracked in 1971. In part the very success of the system contained the seeds of its own gradual collapse. First, the overwhelming role of the dollar failed to reflect either the shift in the balance of economic power which followed from the success of the Community of Six in the 'sixties, or the increasing degree of economic interdependence in the world as a whole which had resulted from the openness and expansion of trade. Second, such an expanding trade environment needed greatly increased liquidity and our inability to tackle this problem in a reasonably orderly fashion meant that we had to rely on the creation of the "overhang" problem of the dollar of which we are all aware.

The oil price crisis of 1973 therefore struck at an international monetary system that was already vulnerable. Admittedly, the transitional period from 1968/69 onwards had led to a reversion from Bretton Woods to the pre-war mechanism of floating exchange rates, which certainly had its disadvantages but to many seemed realistic and indeed inevitable. In this way the system was able to some extent to cope with the backlog of financial adjustment that had piled up, and with the sharply divergent inflation rates and policy responses which followed the oil crisis. Since the shocks of 1971 and 1973/4 we have moved into a more fragile and volatile international monetary environment. I do not want to over-dramatise the point. If we look back on some of the prognoses of 1973 the utter monetary chaos then predicted by some has not materialised. We have successfully muddled through, sometimes doing our muddling in a very sophisticated way. But the problems of overcoming inflation, of seeking to return to a growth and employment pattern which we knew in the Sixties, of reducing international monetary imbalance and of responding legitimately and practically to the needs of developing countries remain with us.

The system needs a more solid international monetary base if we are to have effective reflationary policies without dangerous consequences. A reliance upon floating exchange rates, with the main currency at least temporarily weakened, will not in my view be sufficient. Although such floating rates have allowed apparently more painless adjustments than were

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hitherto possible they have also made it too easy to escape from the financial discipline which is essential to economic stability.

We need not take too pessimistic a view about the future of the dollar. It remains by far the most powerful currency in the world, with great underlying strength. But it no longer performs the almost effortless solâr rôle, with a well-ordered planetary system around it, which was its characteristic of the the 'forties, 'fifties and early 'sixties. It is, however, still the only real medium of international exchange that we have. It remains a sun but without quite the old kinetic energy, and without the acknowledged responsibility or the pre-ordained certainty of maintaining a solar system around it. This is inherently an unstable system, it is the reason for the sometimes confused and exacerbating arguments for and against the so-called policy or non-policy of benign neglect. When President Carter paid his official visit to the European Commission in early January we stressed to him the importance to world monetary stability in the present half-light circumstances of a supportive and consistent American policy towards the dollar.

But at the same time I put then, and I put to you tonight, that a European Community which is the world's largest trading bloc can not forever go on requesting the United States alone to ensure that all is well in the world financial system. Our potential strength in Europe and the rôle that we can play in relation to America and Japan on the one hand and to the third world on the other offers us an opportunity to take more decisive action. This is one of the reasons why the Commission has sought to redefine and launch the dormant Community objective of economic and monetary union. The move towards a common Community currency, apart from its major internal advantages, could give Europe a new strength to exert a major stabilising influence in world monetary affairs.

I am often told that up to this point the historical and contemporary analysis I have put to you is logical and sensible. But that we have either chosen the wrong moment to relaunch such an idea, or that even if we have not, we are locked in by an absence of political will. I reject the view that the timing is mistaken. The European economies are today immobilised in the face of unacceptably high levels of unemployment which appear intractable in the absence of any new historic impulse to growth. For differing reasons neither the strong nor the weak economies see a national route out of their sluggishness. These are precisely the circumstances in which we need with a combination of imagination and realism to break out

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from the conventional framework. I am particularly glad that this need had been fully recognised by the Banking Federation of the European Communities. I received at the end of last week a letter to this effect from their President, the Chairman of the Dresdner Bank. "The Board of the Banking Federation", it began, "met today at Frankfurt-on-Main to consider your and the European Commission's efforts towards economic and monetary union. It was agreed that your efforts and endeavours should be supported as strongly as possible by the banking quarters of this Community, and the Board feels a need to inform the public of its position". At the same time we must be prepared to face and answer the always superficially persuasive/ arguments for cleaving close to the status quo.

Let me briefly mention three of them. First, there is an argument which says that a Community of Nine which for essential political reasons, is ready to embrace the prospect of enlargement to Twelve, cannot possibly at the same time contemplate a decisive step towards greater integration. I turn this argument on its head for two reasons. First, I believe that the prospect of enlargement strengthens the case. It can only take place without a debilitating consequence for what we have already created if the essential cohesive framework is strengthened. Second, I do not accept the argument which is sometimes advanced that to sustain an effective monetary union you need an equality of economic performance in different parts of the union. That has not been true of monetary unions in the past, and it need not be true of one in Europe. If we wait for a time when the standard of living of Hamburg is the same as Naples or of Copenhagen as Lisbon, we shall wait for ever. Certainly a monetary union will involve strong common disciplines. But it will neither of itself ensure, nor needs to be sustained by, a completely balanced regional distribution of income. The United States of America has proved that.

There is a second argument against action which says that either only the strong economies, or alternatively only the weak, would benefit from such a union. Neither is true. It would not be sensible to propose an advance which gave exclusive advantages only to either the strong or the weak. We will never move forward on such a basis. But that is in no way the case here. There is mutual advantage. The strong have an overwhelming interest in underpinning the unity of the European market. This becomes the more imperative as world competitive conditions become more difficult for even the strongest of the member states. Equally the weaker states of the Community greatly need the sustenance and indeed

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the discipline of tighter integration, provided that they get adequate support in the process. That can be done, with an increase in the transfer of resources, but without anything comparable to the sums involved in national states or even in existing federations.

This brings me to the third and last objection I will mention to you tonight. That is, that national governments will never be prepared to give up the powers that they have over monetary policy or exchange rates. My response to this is that on the whole that is a false problem based on a false perspective. The influence that individual European governments have on these matters is already greatly limited by external circumstances, over which they constantly proclaim their lack of control. The powers are largely illusory. The real question about powers should not in my view be locked into a theological debate about their extent, but into a real discussion about the balance of advantage of Europe acting together. And I would add that if an external constraint is to be placed on any individual nation, is it not better that it grows out of an institutional arrangement formed from a group of economies that have already come together for their common purpose and in their common interest.

I therefore put it to you that since no individual European country can expect to influence world financial stability, on its own, in a long term beneficial way, and as it is unreasonable as well as unrealistic to expect the United States to bear alone this burden as it has in the past, we should not merely pay lip-service to, but grasp the nettle of economic and monetary union. It can be greatly for our own good in the Community and for that of the world as a whole.

Thank you for your hospitality tonight. For an Englishman of Welsh origins and who is also a Freeman of the City who now spends most of his time abroad, it is a source of pride that an occasion of such impressiveness can take place here in Guildhall. It is at once a symbol of the historic tradition of the City and of the modern vitality of London as an international banking centre. Long may they both continue. I thank you most warmly on behalf of all the guests for your hospitality and welcome this evening.

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