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ES GILT DAS GEMPROCHENE WORT

EURO-SCLEROSIS OR EURO-REHABILITATION ?

Speech by

~~EEC COMMISSION PRESIDENT GASTON THORN~~

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This speech was delivered by  
EEC Commissioner Mr Ivor RICHARD

Two weeks ago I read one more article on "Euro sclerosis", by Hobart Rowen of the Washington Post, which I understand means high unemployment, low economic growth and high labour costs and rigidity.

It is unquestionable that Europeans have been particularly affected by sector decay, stagnating employment and by lack of unity and vision of a better future. This has given rise to a good deal of discouragement, which has come to be called "Euro pessimism."

The cure is well known. It requires a positive attitude by the patient, that is a new resolve to integrate Europe, based on the pooling of sovereignty over key issues.

Every political leader in Europe knows this is inevitable. Some have said so. Those who cannot give up their national vetoes on progress at the European level may just have to be left behind.

Those who see Europe's glass half-empty are writing it off as a failure, because Europe is said to have proved itself incapable of providing a fully-fledged strategy to reverse its current loss of competitiveness in relation to the US and Japan. A substantial part of our problem stems

.../from the longest economic

from the longest economic crisis since the 1930s. To this extent, a loss of faith in our own future is a conjunctural factor. Wasn't this the case of Americans in the late seventies? Has the American mood not radically changed simply because of a renewed sense of leadership, of economic enterprise and, may I add, of continued fiscal laxity? Could the story not look less one-sided tomorrow? Suppose the US trade deficit (130 bns in 84) continues to increase in real terms and becomes so big that the rest of the world becomes unable to continue financing it, the capital inflow into the US dries up, the dollar collapses and the US quality of life suffers?

Those who see a glass half-full, point out that part of our current European problems are due to our staggering success, to a quadrupling of real living standards since 1950, a virtual disappearance of poverty, a social security system that is the envy of workers everywhere.

And it is a fact that Europe remains by far the largest and the most open trading block, with a share of world trade exceeding that of the US and Japan combined, a haven of democracy and of peace, a center of knowledge and of learning, the largest source of financial aid to the Third World, twice as important in relative terms as that of the US.

.../Four years ago,.....

Four years ago, when the present European Commission was appointed, the Community was facing a series of unprecedented combined challenges : stagnation, rising unemployment, loss of technological leadership, a debilitating budgetary conflict, an impending shortfall in the resources available to finance the Community budget, a threat to the survival of the European Common Market due to national measures of protection, an unprecedented steel crisis, a Common Agricultural Policy (CAP) which was getting out of hand, a prospective internal fish row which was linked to the establishment of the 200 mile zone at sea, to mention but a few.

In order to tackle these problems, the Commission made an unprecedented number of proposals aimed at putting Europe back on the road again.

Four years later :

- the economic indicators, with the tragic exception of unemployment, are more promising than they have been for a number of years, also though prospects are limited by substantial structural rigidities,
- a budgetary reform, which had defied all previous efforts has been achieved ; notably, a solution has been found to the UK budget problem, which had poisoned the European atmosphere for too long , moreover, member

.../governments agreed to raise

governments agreed to raise the Community's maximum available receipts from 1% to 1.4% of VAT; in addition, they are adopting a system of "financial discipline" for Community expenditure, in particular for agriculture;

- protectionist pressures were kept at bay both within the EC and vis à vis third countries; the internal market was consolidated by removing dozens of non-tariff barriers and simplifying border formalities ; several clashes were preempted by setting up a "crisis management" system involving regular US-EC ministerial meetings;
- a major steel reform took place involving capacity reductions and changes in the product mix ; steel is expected to operate under normal market conditions as from 1986;
- the EMS performed beyond the most optimistic expectations. I shall return to this ;
- the CAP was reformed, notably through limitations in the price guarantees for surplus products such as dairy to certain production ceilings, reductions in US-EC cereal price differentials, and the progressive elimination of border taxes;
- a new common policy for fishing was established;

../substantial achievements were

- substantial achievements were obtained in the industrial sector, notably with the establishment of a common programme on controlled thermonuclear fusion (JET project), which puts Europe ahead in the 21st century energy race; the adoption of the ESPRIT programme, whose aim is to encourage EC-wide projects of information technology and research ; an action programme in the area of telecommunications and biotechnology ; a new action programme on environment, including proposals on unleaded petrol, water pollution, and waste ; and guidelines for the establishment of a common market for broadcasting;
- the operations of the European Social and Regional funds were overhauled and rationalized,
- the Third Lomé Agreement, a historic global cooperation pact with 65 countries in Africa, the Caribbean and the Pacific which stands in sharp contrast to the current stagnation of the so-called North-South Dialogue, is being signed - which accounts for President Thorn's absence today,
- further progress was achieved in our agreements with ASEAN and the Andean Group and the decision was taken to sign a general cooperation agreement with Central America, including a substantial amount of aid as a contribution to solving the socio-economic root-

.../causes of that region's problems.

causes of that region's problems:

- the third enlargement of the Community to include Spain and Portugal reached the last hurdle and agreement is near;
- the Fontainebleau summit decided to make the EC more relevant to its citizens, including a common European flag, a European anthem, a single European passport and unified European sports teams.

Would you then still say that Europe is going down the tube, or rather - as I do - that it looks pretty much alive and kicking ?

The achievements I listed are no peanuts, particularly in times of economic and budgetary crises, which are the enemies of progress. Some are even milestones that show that Europe is back on the road. But it is not a straight and fast road like the steps of a child. It is the more tortuous itinerary of an adult.

Of course, the Commission would have wished to do more and better and to achieve results more speedily and smoothly, that is, to avoid losing wasteful time on trivia and bumping up against the continual obstacle of national vetoes placed in front of almost every initiative which we have taken. I don't know whether you realise that over 400 major policy proposals by the Commission have not yet been acted upon by the Community's Council of Ministers.

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Could I just mention here some of the things that the Community could already have done by now : an even bolder reform of the CAP, an increase in the maximum limit of budgetary resources to 2% of GNP, the recognition that the Community as such had the power to raise taxes, an agreement between Council and the Parliament on a common system of financial discipline. I would have liked to see more progress in matters concerning the internal market, and transport.

I would have welcomed a radical approach to border delays, which cost European citizens some 12 billion dollars a year, and public procurement policies, which cost the European taxpayer some 40 billion dollars annually. I would have expected from certain governments a stronger European spirit and from their leaders a greater foresight and courage.

There is no denying that in getting agreement on some of the proposals some precious Community china has been broken and it will be difficult to stick it together again. One of the most negative factors has undoubtedly been the attempt by at least one Member State to get what it regards as a fair return from the Community. This gave rise to an "accounting complex" which was and is poisoning the atmosphere in the Community and has weakened the Community spirit, with serious consequences for its future functioning. Member countries do not ask anymore what they can do for Europe, but only what Europe can do for them.

I am convinced that ...

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I am convinced that through its successive achievements, the Community could transform this negative attitude into a more positive one.

The return of "Eurooptimism" largely depends on increased political integration and security, on economic recovery and on gainful activity.

Political integration has become of the essence. Defence matters will have to be decided together, starting with weapons procurement. The decision-making machinery will have to be overhauled and streamlined. The European Parliament will have to be given the right to legislate.

The recurrence of institutional reform proposals - of which the European Parliament's draft treaty on European Union is the latest and the most far-reaching - are signs of the growing impatience of several of our leaders and citizens with the European-Minister "circus". Few deny the importance of further integration, although steps in this direction are bound to be slow and sometimes still-born.

In the short term, the battle against unemployment and industrial decline is the battle for the future of the European idea.

The Commission has submitted a plan, whose main elements enjoy the support of all Member States. Since the first oil crisis, there has never been such a large consensus in Europe on analysis as well as action required :

- a macro-economic policy framework more conducive to growth and employment through a pause in public

expenditure increases, a reduction in tax burdens, greater investments and greater convergence between Member countries of budget balances and monetary policies ;

the promotion of expansion ....

- the promotion of expansion and competitiveness of the enterprise sector, notably through a greater opening up of the internal Community market for goods, services, capital and professions, the review of regulatory policies,
- the expansion of employment by moderating real wages and labour costs, reexamining labour market regulations and conventions to increase employment propensity, increasing flexibility in working time, and training,
- the furtherance of a more stable international economy through cooperative action with the US and Japan and the LDCs, notably within the GATT, and support for measures to strengthen the international monetary and trade system, and to manage the debt problem successfully.

This plan constitutes a package. Its implementation requires increased coordination among EC members. An important avenue to this effect is the strengthening of the European Monetary System (EMS), to which I shall devote my final remarks.

The performance of the EMS, which was launched in 1979, has shot early critics full of holes. The EMS has become a European zone of relatively stable exchange rates, whether measured in nominal or real terms, as compared to outside currencies. This achievement has only been made possible by increased implicit or explicit coordination in setting fiscal and monetary policies. Exchange rate realignments were decided together in a Community spirit and in an order!

fashion and served the purpose of correcting diverging internal inflation rates and not to gain competitive advantages to the detriment of other member countries.

As to the ECU, private users have shown a growing interest in ECU transactions and investments. On 15 September of this year, the Greek Drachma entered the ECU and the amounts of those currencies which appreciated during the past five-year period were slightly decreased to compensate partially for changes in weights occasioned by exchange rate realignments. It is a very encouraging sign that this compositional adjustment caused no market disturbance and affected in no way operations.

In Eurocurrency markets, the ECU now assumes an importance about equal to that of the DM and the pound sterling, all three falling, of course, well behind the dollar. Private ECU transactions witness continuous innovations. Allow me to quote only a few recent developments. The Belgian firm Côte d'Or recently floated the first bond issue in ECU, convertible into shares, and quoted on the Brussels stock exchange. A number of French banks and the European Investment Bank recently gave life to a short-term secondary ECU market in the nature of "note of issuance facilities". The ECU is already quoted on the Rome, Milan, Brussels, Paris and Copenhagen stock-exchanges. Yesterday, a first ECU loan has been placed by the Commission in the US market. It was oversubscribed and I expect it will be followed by others. A clearing mechanism is being established with the BIS in Bâle, Switzerland, for private bank settlements in ECUs.

.../ Demand of ECU travellers cheques

Demand of ECU travellers cheques is such that several French banks in cooperation with American Express as well as Thomas Cook are preparing issuance for 1985. Acceptance of the ECU by private transactors is all the more remarkable as some official hindrances still exist. Only if these obstacles are eliminated, and that is the area where political will is required, will the ECU receive its chance to develop into a full-fledged international currency.

Most important of all, the German authorities still refuse to grant the private ECU equal status to any foreign currency on legalistic grounds. They also object to the ECU on its inferior quality to the DM and its inflationary potential, and are concerned about the particular burden that falls on the DM as long as other participating currencies maintain exchange restrictions. I fully share the German government's view that for the normal development of the ECU, exchange controls within the Community need to be reduced and eventually eliminated.

However, the existence of exchange controls elsewhere does not justify the German government's discrimination against the ECU. Notably, because if ECU transactions were fully exempted from exchange controls where they exist, those controls could easily be circumvented.

German banks have shown increasing eagerness to deal in ECUs. Because law makes ECU transactions impossible in Germany,

../banks transfer those deals

banks transfer those deals to their Luxembourg branches, thereby escaping the control of the Bundesbank. Would it then not be much simpler and consistent, particularly for a government committed to market principles to eliminate discrimination against the ECU, to let the market decide whether the ECU is attractive or not, and to regain control over those operations? As to the inflationary potential of ECUs, it is quite clear that the private ECU cannot create inflation; only official ECU creation could.

To render the ECU more attractive, it should be remunerated at weighted market, instead of official discount, rates. The current swap arrangements ought to be replaced by a permanent transfer part of national exchange and gold reserves. ECUs should also be created through credits to national authorities beyond what is possible now, combined with a rule limiting ECU creation and assuring a non-inflationary impact. As a first step, the role of the ECU should extend to intra-marginal interventions. This would have the additional benefit of rendering interventions more coherent inside the EMS. The holding of ECU reserves by outside monetary authorities should be allowed. The ECU would be offered as a means to diversify reserve assets without creating pressure on specific member currencies, as can now happen to the DM. Finally, the role of the ECU as an international transaction currency can be beneficially expanded for commodity agreements, or pricing of natural oil or other commodities. The Commission is now negotiating for the first time the use of ECU in a commodity agreement.

.. / As to the EMS in general, ..

As to the EMS in general, I strongly regret that the UK continues to withhold its participation ! The UK claims that its major concern is based on the petrocurrency character of the pound. It can, however, be easily seen that, unlike during the initial period of North Sea oil discovery, which indeed implied a significant structural change, it is not desirable, even from a UK perspective, to let the pound fluctuate according to variations in the price of oil.

A second UK reservation also is steadily losing ground. This is the presumed advantage of flexible exchange rates to protect the domestic economy from outside disturbances and free domestic policies for the pursuit of domestic objectives. Experience with floating rates has shown that, due to frequent and protracted overshooting, this presumed advantage does not materialize in practice. Therefore, the UK is bound to gain from joining the EMS.

During the first years of the EMS the UK authorities found it difficult to join the EMS because the pound was overvalued. Now they find it equally difficult because

../the pound is undervalued.



with outside developments such as a reversal of the dollar appreciation.

This should be in the long - or even medium - term interest of the US itself. A lowering of excessive US interest rates and exchange rates is as essential to the United States as to Europe and the rest of the world.

It is my view that the ECU could grow into a major international currency if existing institutional limitations are removed.