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Extract from the statement
on certain monetary matters
made by M. Robert Marjolin
Vice President of the Commission of the
European Economic Community
to the European Parliament

For several years past the international monetary system has not been working in a manner that we could consider to be satisfactory. To meet the difficulties that keep on occurring in this field important and often improvised changes have been made in the rules that were worked out immediately after the war.

This has produced considerable disorder, and as there has not been sufficiently broad agreement as to the proper remedies, the disorder has not yet been put right. The free world cannot be satisfied with an attempt to solve the problem of the imbalances which face it today by applying methods which recall the disastrous errors of the period between the two great wars.

A number of important declarations have now changed the terms in which the problem is posed - the statement by the President of the French Republic on 4 February, President Johnson's message to the Congress on the United States balance of payments, made on 10 February, the lecture given on 11 February by M. Giscard d'Estaing, the French Minister of Finance and Economic Affairs, the further remarks by the United States President on 18 February, and yet others.

Commentators have frequently tried to oppose these various points of view. In an endeavour to be constructive and to help work out a solution that could be acceptable to everyone, I propose to begin by underlining what is common ground and then to show what questions still remain to be answered and in what direction we could usefully seek the answers.

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Let me say first of all that discussions on the world monetary system would not be taking place in such a strained atmosphere if the balance of payments of the United States, the greatest economic power in the western world, had not been showing a serious deficit for more than seven years. This chronic deficit was made possible, if not caused, by an excess of domestic liquidity in America itself. It has been a not inconsiderable factor of inflation for the chief trading partners of the United States, though - at least in the EEC - purely internal factors have played an even more important part. Some central banks have accumulated dollars in considerable quantities; this enabled the United States to be in deficit over a long period without its gold reserves having to suffer the full consequences.

Such are, broadly, the facts.

President Johnson has made a lucid and courageous analysis of this situation. He has given us the striking phrase: "We are highly solvent, but not liquid enough". He has also said: "We cannot, and do not, assume that the word's willingness to hold dollars is unlimited". He has restated the firm determination of the United States to eliminate the deficit on its balance of payments.

There is much discussion on the causes of this deficit; we may hope that the controversy will be ended by what the Americans themselves say. "Our payments problem", President Johnson has stated, "is not an export problem.... We have to deal head-on with the surging outflow of private capital".

We are all aware of the measures that the President of the United States has decided to impose; I shall not go into them here. However, in a speech to American bankers and businessmen, the President did say: "But you and I know that this won't be enough. Capital will still flow abroad to the advanced countries from your banks and your businesses if you let it".

Leading bankers and businessmen have therefore been asked to co-operate with the Administration in a campaign to restrict short-term loans and direct long-term investment abroad.

What is there for us to say at this stage about American policy, which is not just a domestic affair for the United States but is also of major concern to the Community and the rest of the world?

First, we can say that things are moving in the right direction. I do not wish to prejudge the matter, but I would simply say we trust and believe that United States policy will lead to a substantial and lasting reduction in the deficit if certain internal measures are taken at the same time.

We can but endorse without reservation what the EEC Monetary Committee said in its latest report, from which I will quote briefly:

"There is therefore no doubt that capital transactions are the item which calls for attention if the American deficit is to be corrected. It is hard to see how this can be done as long as the American capital markets enjoy their present ample supplies of funds."

We agree with the Monetary Committee in thinking that a tightening of the American financial markets, one result of which would be to raise long-term interest rates, is among the conditions without which it will not be possible to re-establish equilibrium on a lasting basis.

We think, that slowing down American direct investment in the industrially developed countries would also contribute to the general health of our economies. It would be useful if the Community countries adopted a common attitude to these transactions. There is no question - I wish to make this clear to avoid any misunderstanding - of closing Europe to such investment, which is more often than not highly beneficial to our countries, but simply of avoiding excess. Community action in this direction could consist of a detailed statistical check on direct investments from non-member countries, supplemented by machinery for consultation between the Governments and the Commission on national policies in this sphere. This presupposes, of course, that all Member States supply each other with the necessary information. In this way we should be moving in the direction already required under Article 72 of the Treaty of Rome.

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This brings me to the question of the international monetary system, which is today the subject of liverly debate. We believe that such discussion is, in part, the result of certain misunderstandings, and these must first be dispelled.

The expression "gold standard" has been used in several different senses, between which it is essential to distinguish. Certain persons, who in any case do not occupy positions of responsibility in the conduct of public affairs, consider that it means a pure and simple return to the monetary machinery that existed before the First World War, which was characterized by the almost exclusive use of gold in international payments with, as a result, serious and rapid deflation in a debtor country which did not possess large reserves. This is a system which we rule out.

For others the gold standard, which could also be called the reformed gold exchange standard, means a return to a stricter monetary system and to the ideas which underlay the Bretton Woods agreements made during the Second World War.

These ideas affirm the primacy of gold in the final financing of balance-of-payments imbalances, but accept the maintaining, and perhaps even the widening, of international credit facilities, provided these facilities do not in practice remove all need for the debtor country to take the necessary steps to ensure the speediest possible return to equilibrium. This would mean maintaining the machinery of monetary co-operation represented by the IMF, the Group of Ten, and the short-term credits which central banks make available to each other.

These ideas do not, however, allow of the future accumulation by the central banks of large surpluses in foreign currency.

The Executive Commission is inclined to share these ideas. The weaknesses of the gold exchange standard, as applied at present, are now universally recognized, and it appears that the arbitrary creation of international liquidity, not in accordance with the needs of international trade but following disequilibrium in the balance of payments of this or that country, has now reached a limit which it would be dangerous to exceed.

Even if a general agreement could be reached on such a basis, two further questions would arise on which, with your permission, I should rather not give you answers today, though I can make a few introductory points:

1. What should be the fate of balances at present held in foreign currencies by the central banks ? No sudden decision should be taken. The solution should be sought without haste, in view of the debtor and creditor countries' need for security and in order to avoid causing a considerable contraction in the volume of international liquidity.

2. What would in future be the means used to create the additional international liquidity that will be made necessary by the expansion - and we hope it will be rapid - of trade of every kind between the countries of the free world if, as is probable, the production of gold should prove insufficient ? We do not think there should be an increase in the price of gold, since this might undermine confidence in national currencies. The creation of additional international liquidity should be done on the basis of agreed criteria and amounts, so as to exclude the maintenance over lengthy periods of disequilibria in the balance of payments, except in the case of developing countries, which could cover then deficits by means of long-term capital imports.

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I should be disappointing you if I did not say a few words on the role that the Community can and must play in solving the problems I have been speaking about. Its role is already a considerable one. I refer again to our Monetary Committee's recent report.

It states that "at the end of 1964, outstanding drawings on the IMF totalled $ 2 622 million. Of this total, $ 857 million was financed by IMF sales of gold, while of the balance of $ 1765 million, $ 1 437 million - more than 80% - was in the form of drawings on Community currencies."

The Communitiy's opportunity for action at world level would be considerably enlarged if its own monetary unity were reinforced. This is already a reality, but it may still be called in question again. I quote the Monetary Committee once more:

"It (the Monetary Committee) conclude that progressive integration within the EEC, and particularly the tendency for the respective prices of a growing number of products to settle at much the same level throughout the Community, will make a devaluation or revaluation increasingly difficult an unlikely. The establishment of a single agricultural market will strenghten this trend, However, the Committee considers that even so it would still possible for a State to adjust the exchange rate of its currency, should this prove necessary in order to safeguard, for example, the smooth working of the Common Market itself".

This description of the present situation corresonds to the facts. Our task ist now to ensure that devaluation or revaluation, which today are only difficult and unlikely, shall become impossible and useless.

The Executive Commission is already at work on this. It is seeking a solution along several lines at the same time, realizing that in each of them decisions will have to be taken which together will form an indivisible whole. At this stage I shall do no more than indicate the lines we are following:

1. We are seeking, on the basis of methods already used last year to deal with economic imbalances, to intensify co-ordination of the economic and financial policies pursued in the Member States by endeavouring to work out common norms for such matters as budgetary policy, credit policy and, as soon as possible, incomes policy.

2. We are seeking to achieve complete unity as regards capital movements, whether for long-term or short-term investment.

3. We aim at harmonizing progressively the instruments of monetary policy.

4. We are seeking to strengthen the solidarity of Member States in the matter of international liquidity reserves and their co-operation in international monetary operations, until the day when the reserves of each country can be considered as part of a single reserve.

The movement towards monetary union is essential for the Community itself, and also for the future of the international monetary system, for if monetary cohesion reaches the point where the Common Market is looked upon from the outside as a single unit, the search for international equilibrium will be simplified by a reduction in the number of decision-taking centres and by the opportunities stemming from partnership among equals.

Later I propose to make a statement to the Parliament on the action programme the Commission is to adopt in order to achieve the aims I have just summarized.