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Address by Raymond Barre, **

Vice President of the Commission

of the European Communities

at a Conference of the

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Recent Trends in the European Community

** including text revisions

I appreciate this opportunity to address such a distinguished American audience.

Your kind invitation to discuss recent trends in the Community I have welcomed. It is because I am convinced that we must -- on both sides -- keep our lines of communication open -- particularly in these times.

Relations between the United States and the Community have been in a kind of "latent crisis" for nearly two years. Various attitudes are available to cope with the situation. One is to deny the existence of any problems and to proclaim that we enjoy the best of all possible worlds. But this is neither realistic nor useful. Such an approach could further deteriorate our relations.

Another attitude is to say things that could please the other party. I don't believe this can suit our common interest either. We would risk being compelled, sooner or later, to act differently from what we said.

The best attitude, it appears to me, is to face facts; to consider them with objectivity and frankness and -- beyond our divergences which are normal and legitimate -- to look for basic and common approaches which can lead to fruitful cooperation.

It is in this spirit that I intend first to sketch the recent Community developments in the economic and monetary fields. Then, I will endeavour to answer the fundamental question you now ask Europeans: "Is this European Community which is consolidating and strengthening itself more and more conscious of its increasing responsibilities in the world?"

"Is it an inward-looking or an outward-looking Community?"

In the last ten years, the Community has established a customs union and a common agricultural policy. These two achievements were complementary. The European countries, for which agriculture is a heavy burden, could not accept the risk of industrial free trade, if they did not profit from a preferential market for their farm products and from financial cohesion within the Community.

But it was clear that a common market of commodities and services would remain incomplete and would be exposed to instability and shocks without a more solid economic and monetary structure.

After the 1969 monetary crises, a new target was given the Community at the Hague summit conference: the step-by-step creation of an economic and monetary union.

The ambitious character and the political implications of the undertaking engendered a long and lively debate. Last February, the member states finally decided on the progressive establishment of an economic and monetary union during the 1970's and on the adoption of the first three-year program of action.

These decisions are more important than their first reception accorded them.

The Council of Ministers did adopt the measures proposed in 1969 by the Commission. These can be considered as the basis for further developments toward an economic and monetary union.

~~First~~, They agreed on a medium-term economic program, defining guidelines for following the main economic variables -- and particular prices -- to be used for the period from 1971 to 1975 as a framework for the coordination of current economic policies and their convergence toward growth and stability. A specific procedure of pricr consultations is already practiced for the most important decisions of economic policy.

On the monetary side, short-term and medium-term support mechanisms, amounting to two billion dollars have been created to help member countries which may experience balance-of-payments difficulties.

Thus economic and monetary cooperation among the member states, which had been informal, has become organized with its own specific rules and mechanisms.

Second, the six governments agreed on the final objective to be reached at the end of the present decade: the creation of a large economic area in which men, products, services, and capital could circulate freely. It involves the setting up of fixed and irrevocable parities, without margins of fluctuation, for the currencies of the Community. It also calls for the establishment of a common organization of central banks responsible for the conduct of a common monetary policy and for giving necessary powers to Community institutions to manage the economic and monetary union. A common currency will be the crowning point of such a process.

Before this final achievement, it is possible that a European unit of account could be used for specific financial transactions.

Parity changes cannot be exluded for Community currencies before the final stage of economic and monetary integration. However, it was decided to avoid greater flexibility of exchange rates between Common Market currencies, even if these techniques were introduced on an international level.

It should be noted that these principles will have to be accepted, according to the Hague decisions, by the applicant countries.

Third, the member states have adopted a specific program for the next three years. During this period, the Community will reinforce the coordination of economic policies, particularly of budgetary policies. It will start the process of creating a European capital market through the progressive elimination of tax obstacles or restrictions to capital movements. It will go ahead with the harmonization of the bases of indirect taxes, the tax-on-value-added being applied in 1972 in the six countries. Our central banks will begin gradually to reduce margins of fluctuation of exchange rates among the currencies of member countries. They are already preparing a special machinery to coordinate their intervention on exchange markets. A first reduction of margins from 1.5 to 1.2 per cent will occur this summer.

The success of this program will be decisive for further developments at the end of 1973. The Community will consider the results and decide the next steps to be undertaken toward the final objective.

We neither ignore nor underestimate the difficulties which we see ahead. We know that each member country has different economic and social structures and that they do not use the same trade-offs between growth and employment on the one hand, and price stability on the other. We know that solidarity among our countries will have to grow in other ways than in words. We know that creating an economic and monetary union means the acceptance of a new, strict discipline not only for governments but also for the private economic sector. This union will be founded on the complex reality of several nations, each with their own roots and traditions. Thus, we must find a new institutional formula in order to manage efficiently the economic and monetary union.

If we are conscious of these difficulties, we are not given to pessimism. Indeed, we can fail. Nothing is acquired forever. But if the political will asserted by the heads of state or government at The Hague is maintained and if the enlarged Community, does not dilute our organization but instead will provide the incentive for greater cohesion, then we have some reasons to believe that the goal is not out of reach.

Our economies can enjoy in the 1970's a satisfactory rate of growth about 5 per cent -- which will facilitate integration. Moreover, appropriate regional and social policies, expressly provided for by the February decisions, will contribute to reduce disparities among the six economies. And then, public opinion is supporting monetary integration for internal and international reasons.

Finally, we are encouraged by the ability of the Community to find answers to its problems.

In 1958, many people doubted it would be possible to set up a customs union within 12 years. Nevertheless, the Community was ahead of schedule. In 1970, the discussion about the Werner Report generated uncertainty on the future of the economic and monetary union. Yet, in February 1971, the necessary decisions were taken. In March 1971, it seemed there was a deadlock over the common agricultural policy. Nonetheless, a new start was given to this policy by the adoption of far-reaching structural measures.

Why should we not succeed in the same measure in achieving economic and monetary union? It is not adventurous to expect that the pessimists are wrong.

The chances are that the European Community will have a greater weight in world affairs during the present decade. Its position will be strengthened by the enlargement of the Community which we consider as highly probable.

This prospect gives rise to questions and concerns. There appears in the United States a tendency to consider that the Community has no interest in what happens to the multilateral system of trade and payments -- so long as it is managing its internal problems. We in Europe say that these fears are unfounded and the criticism undeserved. Until now, facts do not justify these fears or criticisms.

Let us consider first international trade.

From 1958 to 1969, total imports of the Community rose by 244 per cent and imports from the United States rose by 283 per cent.

According to the 1971 Economic Report of the President of the United States, "on balance the effects of the formation of the EEC on industrial trade have so far been favorable."

The Community has carried out all its commitments assumed in the Kennedy Round, whatever problems of adaptation its industries have had to face. Yet we are now anxious that protectionism in the U.S. could awaken protectionist tendencies in Europe. Our countries, indeed, have not reached the level of industrial development of the United States.

The continuous trend toward liberalization, which has stimulated international trade, has not equalized conditions between some European industries and their competitors in the United States. U.S. trade profits from its specialization in technologically-advanced products.

As regards developing countries, the Community will create a generalized preference system next August, thereby taking the lead among industrialized countries.

Let us now turn to the Common Agricultural Policy which faces harsh criticism. Look first at the figures. From 1958 to 1969, agricultural imports of the Community rose by 56 per cent; agricultural imports from the United States rose by 79 per cent. According to U.S. Department of Agriculture figures, U.S. farm exports to the Common Market rose to a record level in 1970.

Critics of the size of agricultural labor in the Community -- an average of 12 per cent of the working force -- should be reminded that the Community countries began their farm revolution in the 1950's, whereas the United States achieved it in the 1930's and 1940's.

Historical and social factors are responsible for the limited size of European farms. We encourage their modernization. But we don't want them to disappear completely, for they contribute to the equilibrium of our society. If the Community has prefered price supports to direct payments, it is because income allowances to farmers would be an intolerable financial burden. Nonetheless, our price policy has been moderate, in spite of the strong pressure of farmers organizations. It has taken great account of international trade considerations. One example, for instance, has been to safeguard imports of U.S. soybeans.

Lastly, European farmers are not impressed when they hear that the Common Agricultural Policy excessively benefits the inefficient Community producers at the expense of efficient outside suppliers. Are the outside suppliers so efficient as to be able to face competition without any government assistance? It must be noticed that the public expenditure per person occupied in agriculture amounts to $1,300 in the United States, but only to $860 in the Community.

I will not venture to say that the Common Agricultural Policy is exemplary. I don't deny its shortcomings. But, generally speaking, the Common Agricultural Policy complies with the needs and interests of our agriculture. As such, its principles have never been disputed within the Community. But I can well imagine that it will evolve as technical, economic, and social conditions change in European agriculture.

If farm trade problems do arise for third countries, we are always ready to seek, with them, appropriate solutions such as is now the case for citrus and tobacco. But it is a pity that, during the Kennedy Round, the Community proposals to harmonize agricultural support policies on an international level, were not accepted. Such harmonization would have created better conditions for the development of agricultural trade throughout the world.

We now come to international monetary problems.

Most people within the Community -- and outside -- are deeply concerned about them, even if some Europeans try to minimize the situation and give appeasing explanations to recurrent crises. Complacency as well as resignation is dangerous.

I would like to express an independent view of the situation.

The dollar is the most widely-used currency for international transactions. It plays a central role in the international monetary system. A dollar crisis would severely disturb international trade and payments. No sensible man could wish such a crisis.

But confidence in the dollar depends on what those who use the dollar think about it. What they think depends, in turn, on the basic strength of the United States economy, the scale and efficiency of the American banking system, the size and depth of the United States capital market, and finally on the domestic and external equilibrium of the United States.

In recent years, inflationary pressures have affected the U.S. economy. A courageous stabilization policy was implemented. No one doubts that United States authorities will exercise their full responsibility to maintain a non-inflationary expansion of the economy, in spite of external constraints and employment difficulties. No one believes they will heed experts who advise them to treat the balance-of-payments problem with "benign neglect".

The situation cannot be improved overnight. But a continuous effort from the United States is the key condition for a better psychological climate in international monetary relations and for a proper working of the international monetary system.

If massive payments deficits persist, the accumulation of dollar balances by foreign central banks would sooner or later reach a limit. Even political considerations, which were and remain so powerful, could not indefinitely escape the logic of facts. The latest annual report of the Bundesbank is, in this perspective, very instructive.

Some people - among them some Europeans - say that countries other than the United States have to revalue their currencies periodically. This solution is theoretically possible. But is it realistic to think that these countries can accept successive revaluations without considering the effect on their domestic economies -- including the relative evolution of costs and prices? Would public opinion be willing to bear unilaterally the burden of the process of international adjustment? Moreover, we should wonder how an international monetary system can work, if some currencies are perpetual candidates for revaluation. How would it be possible in such a situation to avoid recurrent disequilibrating capital movements? In such circumstances, greater flexibility of exchange rates would be a blind alley.

What would be more probable would be the setting up of controls. One cannot exclude, in an emergency situation, the inconvertibility of the dollar into gold, followed inevitably by a general reconsideration of all parities. What a prospect of anarchy!

More and more, people are beginning to say that it is too late to avoid such developments.

Yet there are still chances to restore progressively a satisfactory working of the international monetary system in a spirit of international cooperation.

First and foremost, it would be very useful if we stopped talking about the greater flexibility of exchange rates --wider bands or frequent and limited parity changes-- as the appropriate formula for solving present problems. International monetary stability requires that the process of adjustment be observed by all countries. Parity changes should be used only to correct fundamental disequilibria. They cannot become a normal instrument of economic policy.

Second, it is urgent that the Euro-currency market be regulated by the concerted action of central banks. It has been said for a long time that this would be impossible. Nevertheless, helpful measures were recently taken by monetary authorities in the United States and central bankers in Basel who are now working on the question. The regulation could be all the more efficient if central banks - above all in Europe - would stop "reswapping" to commercial banks the dollars they have in excess, thereby organizing what the late General Director of the Bank of International Settlements called "a sort of roundabout".

Third, it would be necessary to reach an agreement on an orderly growth of international liquidities: gold, special drawing rights, and dollars. S.D.R.'s were created in 1968 to be a supplement to gold and a substitute for the dollar. This new reserve instrument, which is collectively created and managed, can be very useful to the international monetary system. But its future depends on conditions in which international liquidity will grow. It could be difficult to add S.D.R.'s to an increasing volume of dollars. It becomes thus very important to limit progressively the share and the rate of increase of dollar balances in the international monetary system. We will have to make up our minds in view of the second allocation of S.D.R.'s in 1973. I hope personally that the S.D.R.'s do not fall into desuetude. If an agreement on the evolution of reserves is obtained, the financing of the U.S. deficit could be realized by normal methods of conditional credits through international monetary institutions instead of unlimited and unconditional accumulation of dollar balances by foreign central banks. I notice that similar ideas were recently formulated by the Joint Economic Committee of the Congress.

In monetary affairs as in trade relations, you can be sure that the European Community is not only conscious of its responsibilities, but resolute in support of positive actions.

From this point of view, the development of a European economic and monetary union would bring real advantages to the Western world. It would allow for a better international coordination of economic policies. Such coordination would be more efficient, if carried out between several large economic and monetary entities, than a great number of small units. It could put Europe back into a ranking position as international banker and stimulate European investments in the United States, which could be a useful contribution to its external equilibrium. Finally, the Community would be in a position to assume a proportionate share of some international burdens that have weighed heavily upon the United States since the 1950's.

We are not constructing an economic and monetary union against the United States, but for Europeans and, also, to the advantage of outside nations.