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The structural change that has in the last few years occurred in the Community's payments balance cannot, in the opinion of the Monetary Committee, be considered as either normal or desirable in the longer term. For all Member States, and particularly for France and Italy, there has been a marked deterioration in the current account with the rest of the world and, in particular, with the United States.

True, the reduction of the very high surpluses on goods and services has helped to re-establish a better equilibrium in international payments, but it has been accompanied by an appreciable rise in costs inside the Community. If this process, which has upset the internal economic stability of the Member States, should continue, it might also go beyond the re-establishment of external equilibrium to which it was expected to contribute.

In a community of industrial States like EEC the current account must not however show a deficit indefinitely, for this would mean that net capital imports were considered a sort of normal and permanent condition or that reserves were being eaten into in a way which could not, in the end, be accepted. The Community's natural role should, on the contrary, be that of a net exporter of capital - in the interest, first and foremost, of the developing countries.

In the long run net exports of capital from the EEC countries will certainly be achieved only if the Member States improve the operation of their capital markets and so make them easier of access for foreign borrowers; this would moderate or offset the possible inflationary effects on the economy of the Member States of large-scale capital inflows.

In view of the progress already made in integrating the European national economies, the strains which have appeared in Italy and France have almost immediate repercussions on the other Community countries. The Monetary Committee sees reason to fear that inflation will spread further if not parried in good time and with sufficient vigour by co-ordinated action. If the imbalances which appeared in

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1963 were to continue too long, they would certainly have serious repercussion on the development of the Common Market, and they would lead to the threat of an excessive deterioration in the Community's ability to compete with the outside world. The Member States might then find themselves facing reduced employment following a marked fall in foreign demand, and to combat such a development they would have only a few economic policy weapons that they could use.

In the opinion of the Monetary Committee the measures taken or planned in the various Member States, particularly France, Italy and the Netherlands, must be applied with the necessary severity if it is desired to combat cost and price rises and to avoid any aggravation of the present strains. The Committee considers that the use of selective measures alone in the fight against present trends will not suffice to restore balance. This can be achieved only by using overall measures intended to curb the expansion of total demand and put a brake on rising costs and prices. Such action would undoubtedly lead to a temporary slowdown of the pace of growth, but this would in any case be inescapable if lasting damage to the Community's competitive capacity is to be avoided and balanced long-term expansion made possible. It can also be pointed out that all countries have at their disposal the economic policy instruments with which new vigour can rapidly be injected into the economy if its growth is adversely affected by a weakening of domestic demand.

One of the essential conditions for the re-establishment of balance is that the restrictive monetary policy applied in most Member States to curb the expansion of credit be continued and, if necessary, tightened up.

However, a more stringent credit policy will not of itself hold back inflation. If this struggle is to be won, more vigorous means must be used in budget policy also. Finally, it would be desirable to speed up the implementation of an incomes policy in the individual Member States.

The Committee also points out that it has paid special attention to the problem of how far the international monetary system can be recast with the aim of getting, as a short-term objective, nearer to balance in international payments relations and of ensuring, as a long-term aim, a satisfactory supply of international liquidity.

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