SIXTEENTH JOINT MEETING

of the Members of

THE CONSULTATIVE ASSEMBLY

OF THE COUNCIL OF EUROPE

and the Members of

THE EUROPEAN PARLIAMENT

(STRASBOURG, 3 AND 4 OCTOBER 1969)

OFFICIAL REPORT OF DEBATES

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NOTE

This edition contains the original texts of the English speeches and translations of those delivered in other languages.

The latter are denoted by letters as follows:

(*F*) = speech delivered in French.

(*G*) = speech delivered in German.

(*I*) = speech delivered in Italian.

(*N*) = speech delivered in Dutch.

The original texts of these speeches will be found in the separate editions which are published for each language.

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FIRST SITTING

FRIDAY, 3 OCTOBER 1969

IN THE CHAIR : Mr. SCELBA

President of the European Parliament

The Sitting was opened at 3.30 p.m.

1. *Opening of the Joint Meeting*

The Chairman (*I*). — I declare open the 16th Joint Meeting of the members of the Consultative Assembly of the Council of Europe and the members of the European Parliament.

May I remind you that the Rules of Procedure in force are those which have been jointly adopted by the Bureaux of the Consultative Assembly of the Council of Europe and the European Parliament.

Members who wish to speak should add their names to the list of speakers in Room 70/A.

2. *Apologies for absence*

The Chairman (*I*). — Mrs. Elsner, MM. Leemans, Dittrich, De Gryse, Miss Flesch, MM. Armengaud, Triboulet, Starke and Van Offelen have apologised for not being able to attend the sittings today and tomorrow.

3. *Report by Mr. Hougardy*

I. *Minimum conditions for the success of European monetary co-operation*

II. *Activities of the European Parliament from 1 May 1968 to 30 April 1969*

The Chairman (*I*). — The next item on the agenda is the presentation of the report by Mr. Hougardy, Rapporteur of the European Parliament, on:

I. "Minimum conditions for the success of European monetary co-operation";

II. "Activities of the European Parliament from 1 May 1968 to 30 April 1969".

I call Mr. Hougardy.

Mr. Hougardy, *Rapporteur of the European Parliament* (*F*). — Mr. Chairman, Ladies and Gentlemen, as has long been the practice, the report before you comprises two parts, a political part and a documentary part.

The documentary part consists of the report proper on the activities of the European Parliament from 1 May 1968 to 30 April 1969.

In other words, this part which, in accordance with the statutory provisions, is to be discussed at the Joint Meeting of the members of the European Parliament and of the Consultative Assembly of the Council of Europe, summarises the activities of the European Parliament; it consequently describes in a particular political light the development and activities of the European Community.

Every effort has been made to keep the text within reasonable proportions, for to have given a detailed account of the increasingly extensive activities of our Parliament would have meant the report's assuming encyclopaedic dimensions—which is hardly appropriate for a parliamentary document.

In order to give you some idea of the volume of work imposed on the European Parliament, let me quote some figures from the report.

The Parliament met for 35 days in plenary sittings. Its 12 committees held altogether 247 meetings, that is 25 more than in the previous year. It was consulted 104 times in the course of the year, as compared with 78 times during the preceding year and 52 times during the year 1966-1967. Consequently, the number of reports drawn up by the Parliament also increased —from 105 for the year 1966-1967 to 124 in 1968-1969.

The number of written questions put by members of the Parliament rose from 188 to 359. In addition, 16 questions were publicly debated during the period in question.

The extent of this activity, which equals, where it does not exceed, that of the national parliaments, reveals one of the reasons why the European Parliament demands with increasing impatience that it should be elected by direct suffrage.

The delegates' dual roles impose increasingly heavy burdens on them, which they find it more and more difficult to bear.

But the debate which brings us together here is concerned with the first part of the report, entitled: "Minimum conditions for the success of European monetary co-operation", a theme whose topicality I am sure I need not explain in advance to this Assembly.

Ladies and Gentlemen, the report on monetary policy which I have the honour to present to you was drafted, completed and adopted by the European Parliament before the French devaluation, before the violent debate on monetary policy in the Federal Republic of Germany and before the German Government's decision, at the beginning of this week, to allow the Deutsche Mark to find its own level on the exchange market.

Our Assembly, too, is meeting just when the International Monetary Fund is sitting in Washington, and a few weeks before the summit meeting to be held in The Hague on 17 and 18 November next. However, I do not think that anything in the situation I described before these events has improved in the meantime. On the contrary, what I said in the report about this acute crisis and its unfortunate repercussions has proved accurate. I refer on this point to the remarks in paragraph 7 of the report on the repercussions of monetary difficulties on the agricultural common market, and in paragraph 6 on the problem of the exchange rate.

If, since then, your Rapporteur's fears have been confirmed, namely that the very existence of the agricultural common market would be menaced by a unilateral change in the exchange rates of one or more member countries and that disintegration would be the only likely result; if the forecasts and fears contained in the report have been confirmed in these fields, this is no reason to call them prophecies.

This assessment is the result of a lucid analysis of the nature of the crisis and its causes; it is not a piece of wishful thinking, it does not take as its starting-point the notion that nothing can happen that is not logical and is consequently impossible, but neither is it based on the idea that the elimination of certain symptoms is synonymous with cure.

If I may extend this metaphor, just as an illness cannot be cured without precise and unflinching diagnosis, in the same way the present monetary crisis cannot be combated effectively and with hope of lasting results so long as its causes and the extent of their effect are left out of account.

Let us take an example. The symptoms of monetary crisis are more disquieting than ever. In my country, Belgium, the banks are proposing an interest rate of 10-12 per cent and even more for short-term loans. Economically, such a situation cannot be long maintained without the most dire consequences.

In the Federal Republic of Germany, a few days before the elections for the Bundestag, the influx of currency was such that the federal issuing bank and the government were obliged temporarily to close the exchange market. The German Government saw no other possible way of solving the country's monetary difficulties but to adopt a measure which had seemed inconceivable since the conclusion of the Bretton Woods Agreements in 1945, and which creates a new situation in international monetary relations, namely the abolition of the official margin of fluctuation of the Deutsche Mark.

These events, for all their importance, are only danger signals, pathological symptoms, but not the danger, the sickness itself.

No responsible politician or economist will be so foolish as to believe that the crisis is over as soon as the exchange market is re-opened, the flow of currency into Germany returns to normal, the exchange rate of the Deutsche Mark is fixed again and the interest rate reduced to normal proportions.

Indeed, and I wish to insist on this point in introducing my report and the debate which will follow, the monetary crisis which is shaking Europe and the Western monetary system to their very foundations is not primarily of an economic or technical nature but is essentially, in its origin and its character, political. Consequently, there can be no question of seeking a solution primarily in monetary policy or technical measures; the solution of the monetary crisis, if there is one, will be a political solution.

What are the causes of the crisis?

They are political, not only in the sense that the difficulties appear to flow from the application of faulty or mistaken monetary or economic policies by the governments concerned, but also, and principally, because these difficulties arise from the absence of suitable structures or the weakness of existing structures. But the main cause of the crisis is the fact that the monetary geography of the Western world no longer reflects its political geography. Each of last year's crises was due to the weakness of the two main reserve currences, the dollar and the pound.

However, the main cause of the dollar's weakness is the world role which the United States feels obliged to play and the excessive burden this places on the American budget; as for the weakness of the pound sterling, it is due principally to the new place of Great Britain in world politics. Britain's political function is no longer commensurate with her monetary role; the structure of the sterling area, which is the monetary basis of sterling's world role, no longer corresponds to political and economic reality.

Similarly, one of the causes of the crisis of the French franc is the disproportion between the tasks which French policy has assumed or has had thrust upon it, and the country's economic capacity—in other words, the disproportion between economic and political realities.

The monetary policies of the two European countries, as revealed in the monetary crisis, seem to me to throw particular light on the basic problem: a state's currency represents that state, it represents the state's guarantee of the whole economic process, especially of the fundamental value relationships governing exchange both within the state and outside. The extension of economic activity beyond the state's frontiers through foreign trade in no way changes this role of currency and consequently the state's guarantee, but it does provide a measure of state's political efficiency.

Great Britain's and France's monetary problems are not essentially problems of monetary technique, nor are they mainly economic problems. They raise the political question of the state's guarantee capabilities, and they do so directly on the psychological plane. The speculation against the French franc was triggered not only by economic factors but also, and perhaps even more, by psychological factors. It developed in proportion to the disappearance, whether justified or not, of confidence in the French Government's ability to act, and was thus finally one of the main causes of the fall of that government.

The President of the French Republic had indeed attempted, last autumn, to check the developing crisis in its early stages by psychological methods in refusing to devalue because he saw no economic or monetary reason to do so. The European monetary crisis will not, therefore, be resolved by having recourse, exclusively or even principally, to measures of monetary policy, but by acting in such a way that both the monetary and economic instruments brought into operation are commensurate with the new needs and by re-establishing in these countries, in Europe and more generally throughout the world, confidence in the state's ability to act and to provide guarantees in these fields.

But will that be possible, and under what conditions? To speak of the state's ability to act and to guarantee its currency is at the same time to ask whom we are driving at. For in Western Europe, the monetary situation has been made all the more critical by the mere existence of the institution which is supposed to create the conditions and instruments necessary for the appropriate solution of monetary problems, namely the European Community and the Common Market.

Integration of the economies by sectors has revealed differences in level, the negative side of which is that they preclude any possibility of influencing the market politically.

The growing integration of markets is not matched by a growing integration of guidance mechanisms, with the result that the ways in which governments can act in economic and monetary policy matters are increasingly modified. Economic trends are no longer a purely "domestic" problem: the six economies are caught up in a general current, and although this can still, up to a point, be nationally directed, protection on a national scale is no longer possible.

Every government must expect to see its own economy influenced by its partners' policies, but it can exert no direct influence on them. It cannot now even protect itself against possible unfavourable repercussions, except by placing restrictions on international trade, in other words by applying a policy contrary to the rules agreed by the member states of the Community.

The freedom of action of the institutions responsible for economic policy is thus limited in two ways. National governments continue to bear responsibility for the overall development of the economy. But they can no longer act independently in all sectors; their freedom is restricted by Community machinery.

As for the freedom of action of the Community institutions, this in turn is limited by the powers still wielded by national governments. In certain important economic sectors, these institutions have no power at all, or their power is only accessory.

No political body bears direct and full responsibility for the entire economic and political weight of the Common Market, for no such body exists. Thus the six economies are striving to achieve a single market without conforming to a single overall authority. There is no suitable governing machinery to regulate the working of the market as a whole.

The Common Market can only function under the following conditions: either a common economic policy must be implemented, that means practising within the Community an economic policy which is the same in its broad outlines, or the system of floating exchange rates must be adopted; floating exchange rates would permit a certain amount of diversification in economic development within the framework of free exchange within the Community, and would help to lessen the present difficulties.

A third solution would be to maintain or to re-establish national frontiers for certain sectors of the economy; that is what happened recently after the devaluation of the French franc.

That, Ladies and Gentlemen, is the choice which faces the Community. It will be important to know to which of these solutions we shall be committed by each step we shall have to take in the coming months.

The third solution, that is, the maintenance or re-establishment of national frontiers, would amount to the achievement in Europe of one of man's oldest dreams, in so far as it is practicable and people have sufficient patience to put up with it. The Common Market would thus become a system of perpetual motion at last achieved. It would mean setting off an endless movement which continually brough us back to our starting-point. From the protection of national markets we should move to free trade, which would in turn lead, under the effect of monetary disparities and fluctuating exchanges rates, to restrictions in the free circulation of goods, and so on and so forth.

The second solution, floating exchange rates, is equally suspect. It would mean allowing rates of exchange to float, as is so often advocated at present and as the Federal Republic of Germany has just done in practice.

We must be fully aware, even more than for the other solutions, just what steps in this direction would be bound to cost.

Widening the band of permissible fluctuation is in fact a way of dissimulating a *de facto* revaluation or devaluation. It would probably not prevent speculation. Floating rates seem almost a direct incitement to speculation. On the other hand, the increased exchange risk would produce a reduction in intra-Community trade and internal investment, that is, a reduction in the rate of economic growth.

This solution of slowing down the Common Market to idling speed would no doubt be practicable for a transitional period, but it would deprive the Community of its principal raison d'être.

In trying to camouflage a weakness in the monetary field and succeeding in the short term, one would discover another weakness on the plane of international trade. Variable rates of exchange make international trade less attractive.

The first reaction among business circles, for example, was fear of a reduction in the volume of trade with the Federal Republic of Germany, because future transactions would involve excessive and insufficiently predictable risks for importers.

Intra-Community trade is even more severely affected. The main advantage which the Common Market brought the business world, we must remember, was increased security in its business dealings. Intra-Community trade became less and less like international transactions, with all their risks as compared with internal trade. Variable rates of exchange may be a palliative for the monetary world, but so far as international trade is concerned, they put an end to the security which the Bretton Woods Agreements had ensured and which had permitted the tremendous expansion in international trade since 1945, and they have also reduced to nought the considerable advantages brought by the Common Market.

There is no doubt that the first of the three possibilities, the implementation of a common monetary policy, is, with its essential pre-condition, the establishment of fixed parities, the only logical solution.

The situation of the Western European economies will not become politically acceptable again until this has been done. However, the fact that a solution is logical does not guarantee its political implementation, nor does it mean that we know how to apply it. Before it can be implemented, we must be convinced of its necessity. As for the ways and means, they are not primarily a matter for the experts but will depend above all on the state of the economies concerned and their inter-relationships as well as on the prior political situation of the member states.

These two factors are inseparable. It must first be borne in mind that at present the member states practise monetary and economic policies which are just as independent of one another as their general policies, and consequently there are differences between them it economic development: the present crisis is the expression of those differences.

In this situation, is it not utopian to want fixed parities and automatic monetary support? Those are in fact both instruments of a sort of internal compensation system which is usual and normal between regions subject to the same political system, but which is not well thought of on an international scale. Fixed parities, in fact, imply support for the weakest economy by the strongest. As long as each country can be responsible for getting itself into difficulties, whilst the countries of the Community still observe the international law of non-interference in internal affairs, it is difficult to see how governments can be persuaded of the need for such solidarity.

The paymaster wants his money's worth. There could be no question of pooling only expenses. The governments and the Community institutions have therefore acknowledged, as indeed they must, the urgent need to ensure the co-ordination of their economic policies, and they have taken steps to that effect.

That was certainly an absolute necessity in the short term. But how can and must that co-ordination be ensured? In this context a whole series of major problems arise which must be considered if, in a short time, a general feeling of failure is not to spread and the idea to gain credence that a united Europe cannot be achieved anyway.

Politically, the most important question is this: who will ensure that co-ordination? It will be, we are told today, the governments, through the intermediary of special committees and expert committees, but this reply provokes another question: will these committees really be able to ensure co-ordination and, if so, at what price? If co-ordination is to be ensured by inter-state bodies, such as the Committee of Permanent Representatives or the existing specialist committees, that means that an important aspect of economic policy will increasingly escape parliamentary control.

The fixing of medium-term objectives and decisions on medium-term joint measures have already, from outside, limited parliaments' freedom of choice. The result might be the further accentuation of the already precipitous weakening of the democratic element within the Community. If we interfere with the legitimate rights of parliaments, we must not be surprised if Community measures meet with resistance. What government could insist on implementing agreed measures in the fact of internal pressure?

Ladies and Gentlemen, you as parliamentarians know that the ultimate criterion by which a government will reach a decision is the effect of that decision in the struggle for power among the political forces inside the country. To reject the claims of national, political or social groups can cost a government its chances of re-election. And re-election is one of the essential postulates of any government. Governments tend, if they are not obliged, to bow to the necessities implied by the need to maintain power rather than conform to international agreements.

This being so, if economic objectives jointly agreed to with partner countries are not to be abandoned when elections approach, if social anxiety is not to be translated into policy and if the political forces in member states are not to turn against the Community idea, we must at last embark upon democratisation as a new minimum measure, enlisting the co-operation of political groups and economic and social organisations in defining the Community's economic and monetary objectives.

To establish such a programme, it is essential that there be a primary obligation to consult the European Parliament.

Before concluding, I should like to raise one point, which also seems to me important, if the success of a joint monetary and economic policy is to be ensured.

The envisaged harmonisation of economic policies brings with it new restrictions on member states' freedom of action, while they remain alone responsible for their foreign policy.

In this context, the Community has not produced the desired effect, namely a rapprochement of the objectives pursued by the countries of the Community in foreign policy. On the contrary, their positions on several important questions of international foreign policy are more divergent than they have been at any time since the end of the second world war.

The governments thus find themselves in a dilemma: on the one hand, they are still nationally responsible for their foreign policy; on the other hand, they can no longer make unrestricted use of instruments of economic policy. However, monetary and financial policy are essential instruments in any country's foreign policy. Expenditure on defence, international loans, development aid and the like are among the means a country employs in the protection of its interests abroad. Now the policies pursued by the states of the Community in these three fields are still strictly national ones. There is nothing in that to encourage them to persevere along the path to integration; on the contrary. It may be feared that great progress in the field of Community economic and monetary policy is hardly possible as long as the objectives of foreign policy have not been brought closer together.

Success in Community policy can therefore be judged only in relation to how much nearer the decisions taken bring us to the goal of a common policy in vital sectors of state and society, that is to say the extent to which they reveal the existence of a common political will and clear a path for it.

The harmonisation of economic and monetary policies will not bring this goal within our grasp. It will create new technical constraints whose logical outcome is political unification; but it will not be realised that such constraints cannot be properly dealt with by applying a common policy.

We must bow to the facts: the advance towards political unity, and thus towards an independent destiny for Europe, cannot be begun until economic and monetary policy are conceived, understood and desired, as the instruments of a common overall policy.

This brings me to my conclusions.

Monetary co-operation depends on co-operation in economic policy—which must gradually become mandatory.

Economic co-operation can only become mandatory in so far as jointly defined aims are gradually incorporated in a common overall policy.

As long as the foreign policies of member states continue to differ in important ways on a number of essential points, the prospect of a common, or even simply harmonised, economic and monetary policy remains limited.

As long as the political organisations of the peoples of the Community are denied all chance of helping to shape decisions and determine economic and monetary objectives, common objectives are unlikely to be realised.

These conclusions indicate the following tasks:

1. A common monetary policy can only be arrived at in stages. These stages must be closely linked with the progress towards economic union. The essential minimum conditions for successful monetary co-operation is real co-ordination of the medium-term economic policy objectives of member states and of their day-to-day economic policies.

2. Mandatory co-ordination must be gradually strengthened by:

(*a*) the setting-up of monetary machinery to provide short-term and longer-term aid to states that find themselves in economic difficulties in relation to other countries; the conditions for application of this machinery must be such that the obligation to co-ordinate is increased;

(*b*) the establishment of new machinery, or the adaptation of existing machinery, for financial equalisation on a European scale.

3. Common guidelines should be sought for the supply of capital in accordance with the major medium-term objectives jointly agreed. It will then be possible to do away with official variations in exchange rates.

4. A common monetary policy requires a uniform attitude on the part of member states to the rest of the world, especially in international monetary institutions. An approach common to all European states should be sought.

5. Financial equalisation in its various forms will be acceptable to donor countries only in so far as it is accompanied by the first steps towards common guidelines for overall policy and the necessary procedures are established to that end. But these two conditions can be met only to the extent that a politically conscious Community public opinion can be formed and made aware of the drawbacks of lack of co-ordination in national economic policies and of the dangers to democracy if co-ordination is confined to the state level.

Everything which urgently demands political unity therefore, Ladies and Gentlemen, has a claim to priority. Economic and monetary policy aims must be studied in relation to the general policy aims of the Community, for otherwise what seeks to develop into European policy—supposing we ever got so far—will in fact be nothing more than a monstrous tangle of extremely laborious compromises between the interests of different groups.

The agricultural market should serve as a warning. That is why the general aims of Western European policy must at last be defined. Governments must force themselves—or be forced—to settle their political differences directly and in public, and not go on defying the laws of equilibrium in order to escape them.

Mr. Chairman, Ladies and Gentlemen, the time for costly subterfuge is past. (*Applause.*)

The Chairman (*I*). — Thank you, Mr. Hougardy, for your report.

4. *Reports on behalf of the Consultative Assembly of the Council of Europe by Mr. Petersen, Rapporteur of the Committee on Economic Affairs and Development, and by Mr. Federspiel, Rapporteur of the Political Affairs Committee*

The Chairman (*I*). — The next item on the agenda is the presentation of the reports prepared on behalf of the Consultative Assembly of the Council of Europe by Mr. Petersen, Rapporteur of the Committee on Economic Affairs and Development, and by Mr. Federspiel, Rapporteur of the Political Affairs Committee.

I call Mr. Petersen.

Mr. Petersen, *Rapporteur of the Consultative Assembly of the Council of Europe.* — I wish to commence by offering my felicitations to Mr. Hougardy on his excellent report, which I have had the opportunity to study for some time, and on his extensive and penetrating introduction to the problems under discussion this afternoon.

I have the honour, on behalf of the Committee on Economic Affairs and Development of the Consultative Assembly of the Council of Europe, to present to this Joint Meeting the report on the minimum requirements for the success of European monetary co-operation. It is a difficult theme on which to report.

First, what do we mean by monetary co-operation? If the aim is to prevent further foreign exchange crises that might develop into devaluations, that in itself would be a very important achievement. Or do we aim at co-operation that will make the monetary systems of the European countries function smoothly and effectively, that is, prevent balance-of-payments disturbances, guarantee full employment and rapid economic growth and stable prices? That is a much more ambitious task. Or do we go to the limit and envisage a system with a common European monetary unit? Then, indeed, the minimum requirements would be substantial. Nothing less than a central monetary power would be needed.

To take quite another approach, if we had a real political union in Europe we would have no inter-state monetary problems. There would be no foreign exchange problems between London and Edinburgh, Frankfurt and Hamburg, New York and Chicago. If we insist on political union as a condition for successful monetary co-operation, then we can leave out all the monetary technics. What we then have is a purely political problem. If political union could be established the whole complex of problems under discussion this afternoon would disappear.

On the other hand, if we had to deal with separate states or groups of states with different monetary units and monetary systems, monetary disturbances would disappear if all governments acted as if they were part of a great union. If they did show, with no limitation, this kind of self-discipline, monetary disturbances, and with them monetary problems, would be reduced to a minimum. This is a very nice theory, but—as Mr. Hougardy has already said—self-discipline in this respect may mean restrictive measures which might be very unpopular; and there is a limit to how far governments will dare to go in imposing restrictions and hardship on their people, even if they are advised by experts.

Very often, therefore, there will not be a political basis for the necessary self-discipline that would restore economic balance. In the absence of political union with a central monetary power and in the absence of the possibility of sufficient self-discipline, we have to fall back on something in between. The question is how can we improve the monetary technic and the way of handling monetary policy in such a way that monetary disturbances may be reduced. That is, of course, not a strictly European but a world-wide problem. It brings us to the problems of monetary technicalities, such as exchange rate fluctuation, "crawling pegs", the consolidation of deficits by long-term borrowing, swap arrangements, recycling of hot money and surprise devaluations such as that we have seen lately in France, and now, with developments in Germany, free floating exchange rates. I do not intend to go into details on such problems because that would take hours, but they are of interest not only to experts but to politicians, because it is they who will have to take the decisions on which reforms should be introduced.

All these measures have some merits as well as some drawbacks. There are comments on them in my report. If some consensus should come out of this debate on one or more of these points, it would be useful. It seems that a more effective monetary co-operation, which is badly needed, will have to be a complex effort in which quite a number of approaches have to be resorted to. Each of them may contribute a little to improve the situation and reduce the problem. But a panacea which will in one stroke solve the problem is hardly to be found. As long as Europe is divided, monetary disturbances and problems of an inter-state character will be with us. What we may hope to achieve is to reduce them to a tolerable size.

It seems to me almost unnatural for a Rapporteur not to have some kind of blueprint to offer for the debate, but I believe it would do no service to the debate if I were to suggest a series of measures which would have no chance of being adopted in the present climate of political opinion in our national parliaments and countries at large.

It is easier to define some of the problems than to suggest early remedies, but that definition is an essential step towards the informed discussion necessary for the achievement of what I regard as the first minimum requirement for ensuring the success of European monetary co-operation. What is required for that is, first and foremost, a better comprehension of the national self-discipline required to maintain an orderly international monetary system, which is an essential requisite for a steady and continuous increase in our standard of living. Once that comprehension is established, the question of the appropriate machinery for effecting the necessary co-operation will be found, I believe, to pose relatively little difficulty. Without such better comprehension any new machinery is unlikely to take us very far.

The Chairman (*I*). — Thank you, Mr. Petersen.

I call Mr. Federspiel.

Mr. Federspiel, *Rapporteur of the Consultative Assembly of the Council of Europe.* — I express my gratitude to my predecessors in the debate for their reports and presentation of the monetary problems. I have been charged to speak on behalf of the Political Committee. Although I could really sit down, because I am broadly in agreement with what has been said, I want to put some points of view on the political aspects, particularly the political aspects as seen from countries outside the European Communities now seeking membership.

In this context, I express my appreciation to the European Commission for the document released this morning recommending the Council of Ministers to proceed with negotiations for membership with all the applicant countries, thus avoiding the pitfall many of us have feared, that negotiations would be limited to only one of the applicant countries. This move had calmed many preoccupations.

Since the barriers to trade began to be broken down in the 1950s, and more particularly since the major world currencies became convertible in 1958, we in the industrialised world have experienced a greater expansion of world trade and production, and hence the greatest increase in prosperity and the overall standard of living that the world has seen. Throughout this period we have not, as we did in earlier times, seen periods of boom followed by serious symptoms of recession in the style of the classical trade cycles.

Politically this serves to emphasise the interdependence of our economies and warns us that national egotism in the form of restrictive and protective measures or the free flow of goods and services will invariably backfire and punish the offender against the international code of co-operation as much as it will punish those against whom the measures are directed.

Nevertheless the world is not perfect and from time to time the machinery necessary for this development, the monetary system, has been showing signs of strain. Logically, it may not be surprising that the supply of money has found it difficult to keep pace with production and trade and the enormous investments required for full utilisation of modern technology. Although a great deal of ingenuity has been applied to creating the liquidity essential to keep this movement going, we have in the last few years experienced several monetary crises. Only this week we are in the middle of one, to which I shall return, a crisis hardly likely to find a solution until the new German Government is installed in office. Even then, it is by no means certain that whichever solution is found for the isolated German problem the effects will not spread to other currencies.

These crises arising from disparities between the national economies are probably inevitable as long as we fail to achieve some kind of international monetary union, of which Professor Petersen spoke, a union capable of straightening out the disparities by amalgamating the national economies. With our present methods of political thinking, and as long as we are jealously maintaining absolute national sovereignty in our financial and monetary policies, we can only hope that some future generation will reach this obviously desirable goal. In the meantime we have realistically to concentrate on the most appropriate measures which do not offend the sacred cows of national sovereignty.

Long before the last war we were forced to abandon the classical gold standard which for so long had served a gently developing economy effectively and without giving much trouble. I need not here go into the reasons why we had to abandon the gold standard and look for other means of creating money and credit. First, the gold exchange standard came to be accepted, giving foreign currency balances roughly the same standing as gold, thus easing international liquidity up to a point. But even foreign currency balances are limited in supply in the same way as gold, and the new system of international drawing rights had to be devised as a kind of paper gold.

There is a fundamental difference between gold and these other reserves. Gold has a stable price and relative immobility, and currency balances have proved to be a nervous species of animal. This nervous quality of currency balances is due to the fact that confidence in them is susceptible to the ever-varying appreciation of the strength of the national economies supporting the currency in question, this currency in itself having for many years been released from its absolute dependence upon gold and basing itsef on other normally sound assets such as commercial bills.

It is clear therefore that there is a strong connection between the monetary situation and the economic and financial policies adopted by our countries. The more we can harmonise our economic policies, or perhaps rather adapt our economic policies to the greatest possible harmonisation of our economic activity aiming at balancing our foreign payments on current account, the more we shall be able to limit the risk of currency crises for other reasons than an overall lack of liquidity. It has at least been made abundantly clear that the monetary difficulties which we have met and which I believe we are likely to meet at intervals in the future are not problems concerned merely with the mechanism of the international monetary system but are of a political nature and call for political action.

The mechanism has worked remarkably well. Apart from the operations of the International Monetary Fund, which has proved to be an invaluable safeguard up to a point, but no further than the credit of the countries concerned can justify at any given time, the actions of the Group of Ten and the heads of central banks meeting regularly at the Bank for International Settlements at Basle have demonstrated a remarkable degree of flexibility and imagination. It is probably not too much to say that by the intervention of these groups which can work with exceptional rapidity —sometimes just a few telephone calls between the leading central banks—critical situations which may not even have been noticed by the general public have been averted. But these improvisations, however salutary they may be, can hardly be described as a system and can in any case produce only temporary remedies. Settlement of a short-term debt must necessarily follow long before the basic disequilibrium which has been at the root of the trouble can be straightened out by political action in the country or countries concerned.

As long as we have not been able to agree on common economic policies for the purpose of maintaining stability in our economies, and hence currencies employed, there will always be a temptation which governments will find it difficult to resist to resort to immediate protectionist measures such as import restrictions, currency control and the other inequities which were so rampant in the 1930s. These measures have the further unhealthy effect of being infectious, in the sense that they call for other measures by those who are hurt by them and may then become trading enemies instead of trading partners.

It may well be that the situation could be stabilised by regional action within groups which are otherwise closely associated, such as the Communities or even within the Communities, the Benelux Group or the Nordic Group or the Sterling Area or any other natural grouping. But such regional action will suffer from the obvious defect that it does not take the evergrowing interdependence of the greater part of the industrialised world into account.

The proposals drawn up by the Commission of the European Communities in February 1968, generally known as the Barre Plan, to which I referred in my original report, are in themselves valuable and realistic in the sense that they do not go beyond what should be politically possible. But they do not call for similar action by other European countries which are almost as much dependent on the economic developments within the Six as if they were themselves already Members of the Community. Most important of course is that Britain and the pound sterling should be submitted to the same discipline as that proposed for the economies of the Community countries. If policies on the basis of the Barre Plan are adopted by the Community, it is essential at least for the applicant countries that they follow the same pattern and the same timing in the development of their internal economic policies.

Mr. Hougardy made this point very clearly in paragraph 18 of this report, where he says:

"We must bow to the facts: the advance towards political unity, and thus towards an independent destiny for Europe, cannot begin until economic and monetary policy are conceived, understood and desired as the instruments of a common overall policy."

The Barre Plan assumes that the co-ordination of economic policies must rest on monetary and financial support which must be permanent and flexible. This naturally leads on to the interesting observations by Professor Triffin on the monetary aspects of the accession of Britain to the Common Market and hence to the idea of creating some form of European Monetary Fund or reserve which could work quite independent of negotiations for British membership, but which would form an excellent foundation to facilitate the early enlargement of the Communities.

Another point made by Professor Triffin is of equal interest, namely, that a European currency reserve fund could as one of its assets include some major portion of Britain's indebtedness to other European countries. This is an ingenious and simple device. Someone's debt must of course always be someone else's asset. And the asset in question is a perfectly good one provided you do not have to convert it into liquid cash immediately. And that of course is not the purpose of a reserve intended to form a permanent backing of the economy. In any case the overall liquidity is not likely to be affected by a transaction of this nature.

The mere harmonisation of economic policies leading to a better balance between the currencies within the Community or even within Western Europe will undoubtedly be an important step forward, but it is not likely to solve the whole problem of the recurring imbalances. It has been pointed out so often that this can be achieved only if the Western European countries combine into a regular monetary union where imbalances between France and Germany would have as little effect as, for instance, imbalances between Bavaria and Schleswig-Holstein would have on the German monetary situation today. But the establishment of a real monetary reserve available to the Western European countries co-operating in such a system would take us a long step further and enable the co-ordinating organ, whether the Commission or a banking institution, not merely to avoid the effects of disequilibria in the national balances of payment, but also keep the liquidity under control and thus stop inflation from getting out of hand. In other words, to prevent the general economy from being overheated.

It goes without saying that a system of this kind would also require constant co-ordination of economic policy, a point which Mr. Hougardy clearly made, and harmonisation of the various branches of legislation which have direct effect on economic trends; for instance, taxation, incentives to trading, housing policy, pensions and social policy generally. The recent shocks we have experienced—and I am not referring only to the action of the German Government in letting the mark find its own price for the purpose of avoiding speculative movement of capital—have, I believe, further underlined the necessity of combining the monetary policy with the general economic policy.

The sudden increase by 5 1/2 per cent of export duties on agricultural products into Germany is not, of course, a remedy. It is a stopgap, a kind of first-aid bandage to be removed as soon as possible. It seems to me also that the reactions to the freeing of the German exchange rate should put an end to the proposals ventilated in certain quarters, within the International Monetary Fund and elsewhere, to introduce a system of flexible exchange rates or possibly a crawling peg system.

The economies of modern industry and the necessity for long-term planning, both in production and marketing, and the competition which, of course, becomes keener the more restrictions are lifted from the market, will certainly not leave much elbow-room for the uncertainty which such flexible systems invariably would entail. It would force exporting industries to operate with a very considerable risk market, with consequent higher price, to the detriment of consumers and probably to trade generally. This does not exclude the remedy of adjustment from time to time when the economy of a country has evidently got out of tune with a fixed exchange rate.

How much this general consideration would apply to the present situation of the German mark is a matter on which I hesitate to express an opinion. Evidently, the situation is intended to be of short duration, presumably not beyond 20 October. It may well be that the unilateral measures taken, even with the obvious breaches of the Bretton Woods Agreements and the Rome Treaty, may have a salutary effect in the sense of letting the German mark find its true level, which would put an end to much speculation and uncertainty. It seems, as *Le Monde* put it in an editorial on 1 October, that this might be preferable to a further rush on the German mark.

It is evident, however, that the present monetary situation has constituted a serious threat to the working of the agricultural Common Market, and the effects of this should certainly not be underestimated. Everything therefore seems to point in the direction of early action to set up a limited monetary salvage system based on a European reserve and with the greatest measure of political undertaking by the countries taking part in such a system to follow an agreed code of behaviour in economic policy aiming at the creation of monetary stability.

I see no reason why this system should be limited to the Common Market countries. It might prepare the way for an early extension of the Communities, not least because none of us can deny that the pound sterling plays a very important part in the monetary build-up in Europe.

Could we achieve this—and it is certainly not beyond the possibilities of practical politics—it would be a demonstration of political will which in itself might have sufficient momentum to penetrate the political inertia which so far has been one of the major obstacles to progressing to greater European unity.

The Chairman (*I*). — Thank you, Mr. Federspiel.

5. *Exchange of views*

The Chairman (*I*). — The next item on the agenda is an exchange of views between the members of the European Parliament and the members of the Consultative Assembly of the Council of Europe.

I call Mr. Boersma, on behalf of the Christian Democrat Group.

Mr. Boersma (*N*). — Mr. Chairman, unfortunately I received the reports of Mr. Petersen and Mr. Federspiel only this morning. I have not yet been able to study them, and in my remarks on behalf of the Christian Democrats I shall be obliged to restrict myself to what I have read in Mr. Hougardy's report.

I should like to draw attention to the fact that the report is in two parts. The second part gives an account of the activities of the European Parliament. This is no small matter: a great mass of activities is referred to. Numerous political questions of great complexity are discussed as they have been today and will be tomorrow. The second part of the report is also a reflection of human shortcomings. No doubt some will say that over the years in which efforts at United Europe have been pursued, more has been achieved than many had thought. But to set against that, there are many others who take the view than less been achieved than a great many people has expected and hoped. And it is lack of will rather than inability which is the cause. That is clear from the report. At a time when the laws of gravity can be overcome and men can actually walk on the moon, quite clearly we cannot plead our inability to solve problems that are of significance for the whole world: what is lacking must be the will. The basic factor in all the problems dealt with in this Assembly is the absence of concertation and co-operation. And this is true not only of the European Economic Community. The lack of such co-operation is in fact illustrated particularly clearly by the question now before us. It is an extremely topical question; it has already been discussed several times during the last few days in this Chamber, and will probably arise again next week when the European Parliament meets.

And yet the whole monetary situation in which we find ourselves today is an unmistakable symptom of what I have called the lack of real concertation and co-operation. The whole course of recent developments, characterised as they have been by a series of monetary crises, shows that when solutions are being sought there is certainly co-operation, but that this subsequently gives way to nervous national attitudes which cannot really offer any lasting solution, either for a country which adopts special measures or for other countries bound to it by economic and monetary ties. And on this very question there is a conspicuous absence of what one might call a clear, deliberate, co-ordinated approach. Furthermore, monetary affairs are not the only field affected: the same holds true of other elements of government. It would be quite wrong to isolate monetary policy from social policy, from financial policy in general and from economic policy, and to study it as a separate phenomenon. It must be integrated with these other important elements of government.

If there is one thing that has become clear from all this, it is that it must be regarded as intolerable for the international monetary system to be dependent on the balance-of-payments position of the country with the most important reserve currency. For years that country—the United States—has had to cope with a permanent balance-of-payment deficit. The result is a constantly increasing shortage of capital, and it is becoming more and more acute almost every month. As a result, we are faced with higher and higher interest rates, and all their deplorable medium-term consequences, socially and otherwise. This is the untenable aspect of the situation; any solutions proposed must be related to the fact that the United States balance of payments ultimately determines how effectively the international monetary system works. As long as this imbalance continues to exist, and nothing is done about it, then a solution must be a choice between two evils. The United States can try to reduce the running deficit on their balance of payments, with shortage of liquidity as the automatic result. This is the phenomenon we are now faced with.

Alternatively, we can leave matters as they are. In that case, there is ultimately only one solution, namely freeing the price of gold and devaluing the American dollar. Then of course, the game could begin all over again—though at a different parity level. And in a few years' time we should be exactly where we are now.

I have already spoken of the succession of crises with which we are confronted. Of course, attempts have been made to find solutions. An attempt was made in Rio de Janeiro—as another speaker has mentioned—to create special means of liquidity through special drawing rights, but nothing was done to solve the real problems. For no one could say what the position of gold, the pound sterling and the American dollar should be. Furthermore, the Rio de Janeiro agreements have still to be ratified by a large number of national parliaments. In itself, the contribution can be regarded as a positive one. In practice, however, it has not laid many important sandbags on the dike.

Large-scale speculation led to a free price for gold. One of the consequences had been speculation in other strong currencies notably the German mark. Then came the devaluation of the French franc. We are now faced with a situation in which there is talk of a floating exchange rate, and that can only lead eventually to a 5 to 10 per cent revaluation of the German mark.

To that may be added that, in Dutch newspapers at least, it is being suggested that the Italian lira is in difficulties and may possibly forced to devalue in the near future. This, together with the devaluation of the French franc and the disservice to the European cause which the floating exchange rate for the German mark is doing, suggests that we are not in the process of integrating and growing towards a united Europe, but rather that disintegration is all around us—and not only in the agricultural market. In brief, the general picture is not a very heartening one.

The Rapporteurs have rightly pointed out in their speeches this afternoon that we are concerned not only with highly complex technical problems, but also with the political aspects of the matter. I agree with them entirely.

The Rapporteurs have also observed quite rightly that there is only one, unavoidable, conclusion to be drawn, namely the need for fuller collaboration in monetary and other fields, and that this must not be limited to the Europe of the Six.

The task which faces the European Commission in the sphere we are now discussing is of course a specific and clearly defined one. In the light of hindsight, the Treaty of Rome has proved to have sizeable flaws. No doubt this is a matter for general regret. But precisely as a result of the Treaty's imperfections, the European Commission—and I mean this in no derogatory sense, but merely as a statement of fact—can only be regarded as a pedestrian in the supersonic world of international monetary affairs. And it is a pedestrian with one leg in plaster.

Nevertheless, we, for our part, enormously appreciate what the European Commission has produced in recent times—the Barre Memorandum, among other things—because an attempt is being made to correct the fundamental imbalances in the growth of Western Europe by all manner of assistance measures. Ultimately, however, we shall have to try not only to find cures—however important that may be when the patient is ill—but also to prevent such illnesses. And so, today again, we are justified in inquiring: what is the thinking of the European Commission on the problems being discussed here this afternoon and tomorrow?

Before concluding, I should like to draw attention to one further aspect. All the reports we have received, containing an analysis of monetary problems, reveal very clearly the specific effects of speculation on monetary developments and the fact that the actions of a relatively small number of speculators in our various countries can have unfortunate consequences for many hundreds of thousands.

Speculation on the currency markets, to my mind, is one of the fundamental faults in the capitalist system, and the underlying cause of the phenomena which are now under discussion. If an attempt is to be made to overhaul the international monetary system, that aspect of the problem cannot be overlooked, particularly in view of its social consequences.

I now come to my general conclusion. The disease we are talking about is a matter of common knowledge. And I think we can fairly assume that there is no mystery as to the medicine needed to cure it. Unfortunately, the real question is whether there is sufficient political will to administer that medicine.

More specifically, I would say that the monetary problem of today, and that of yesterday too, of course, is a world problem. That means, first and foremost, that at this level no national monetary policy measures are of any real significance.

Even if they provide short-term solutions, the most they can do is to stimulate different reactions. The result is a chain reaction which is of no help to anyone, least of all socially. At the same time, harking back to my remark that we are concerned with a world problem, such measures can in no way help Europe to isolate herself from that general problem or even to tackle it in part—though it is clear that she is expected to make a contribution towards solving it. Here I agree with the various conclusions drawn, particularly those in Mr. Hougardy's report. He says quite rightly in paragraph 21 that as long as the political organisations of the peoples of the Community are denied all chance of helping to shape decisions and determine economic and monetary objectives, common objectives are unlikely to be realised. I hope the European Commission will give its attention to this matter, for that would also be an approach to the solution.

I also fully agree with Mr. Hougardy when he says in paragraph 22 that the most important minimum condition—we are not even talking yet about the whole range of conceivable solutions—for the success of monetary co-operation is real co-ordination of medium-term economic policy objectives and of day-to-day economic policies. Mr. Federspiel emphasised this point a little while ago.

If we agree with that—a question we must answer—and if at the end of this debate we try to formulate concrete conclusions, then, in my view, one of those conclusions must be: what are we going to do about it? Politically speaking—and it is after all a mainly political question—this must mean that each of us should bring these questions up for discussion in his own national parliament and we should try to exert pressure on our governments, particularly the Finance Ministers, since they appear to have very little understanding of the European idea.

Another conclusion must surely be that the whole problem points to general interdependence. And by interdependence, I mean that when something happens in country A, its effect is felt in country B. Various examples could be taken to illustrate this. I spoke a moment ago about chain reactions. For this reason alone and also in view of other elements of policy, it cannot be enough simply to state that monetary policy will have to be the coping-stone of integration. If the European Commission is called upon to pronounce on this again in the near future, I shall be most interested to know its views. It is my opinion that monetary policy must be an integral part and must be developed at the same time.

In this brief suming-up, I should also like to refer—as Mr. Federspiel did a short while ago—to the remarks made by Professor Triffin on behalf of the Action Committee for a United States of Europe. He argued, amongst other things, in favour of a European monetary zone. He regarded this as inevitable and increasingly necessary. A European reserve fund, with clear rules and clear guarantees, would necessarily lead to harmonisation in the monetary policies of the states of Western Europe. In his opinion, it might also contribute—thought it certainly complicates the issue technically—to a solution of the British problem. I shall be most interested to hear what others think of the various comments that have been made. I am curious to know the views of the European Commission on the idea of creating a European reserve currency.

I come to my final conclusion. It is undeniable that in the narrower context—and for the time being I shall limit myself to the present member states of EEC—a solution in the sphere of monetary policy, as a contribution to international reform of the monetary system, would necessarily be accompanied by the handing-over of national powers to a supranational body.

Recent developments have clearly illustrated how vitally necessary that is.

Finally, let me say that I do not expect any miracles from this debate, in the sense that when we depart tomorrow all the problems will be solved. The question is whether we can together make a new contribution which will steer us in the right direction. In this connection I would mention the Hague Summit Conference, for the staging of which Mr. Hougardy has been partly responsible. It may be that our discussion will contribute to the eventual success of the Summit Conference. I do not wish to go into greater detail about the Conference, but I am convinced that it is important. The question is whether we can summon up a new burst of enthusiasm as a result of which further steps towards unification might be possible—and I am thinking not only of the Europe of the Six, but also of all the other countries who have expressed the wish to join. In view of the present situation after the French devaluation, in view of the probable German revaluation and the possibility of more drastic devaluations, I take the view that we are not on the way towards integration but towards disastrous disintegration. I hope that this discussion will a least help to prevent our moving towards the fatal disintegration of a united Europe.

The Chairman (*I*). — Thank you, Mr. Boersma.

I call Mr. Chapman.

Mr. Chapman. — I was impressed by and interested to read Part II of Mr. Hougardy's Memorandum. His summary there of the work done in the European Parliament cannot but deeply impress an Englishman like myself who is not a member of that Parliament. It only makes me express my anxiety to be there and to be a member, to join as soon as possible, in order to be able to share in this very important work. It is deeply impressive, and I was grateful for his summary. I hope that it will not be long before we are able to join in as well.

It is not fashionable and perhaps it is a little foolhardy to be optimistic in matters of monetary co-operation. I think that so far every speaker in the debate has been pessimistic. As Economic Rapporteur of the Council of Europe until last May, I had the difficult and unpleasant task of bringing forward repeated, pessimistic reports about the monetary situation. However, having read the three documents before us and having reflected on them, I want to be a little foolhardy and express some guarded optimism about the months and perhaps even the years ahead.

First—and although this is not really in my list of factors I want to begin with it—we tend to underestimate the success of the Bretton Woods system. It is a very successful system. In his report, Mr. Petersen rightly says that we must recognise that it has facilitated an unprecedented advance and expansion in world trade in the last twenty years. Do not let us start by saying that we have some rickety world structure which is not going to survive. Quite the contrary is the case. It is going well. It has flaws and difficulties in it which have newly emerged, but my optimism springs from the fact that I think we are now tackling those flaws one by one and are moving into a new situation.

But let me come now to the more positive reasons for my optimism. Of course, first, as a Britisher I must express to this gathering a much more favourable view of the present British balance-of-payments situation than is contained in any of the documents before us which were written before the recent trends had emerged and before the figures revealed this week. I see that Mr. Hougardy is nodding his head to confirm what I am saying.

Let me outline what that improvement is. It is no longer the case on present trends that sterling is going to be a weak currency. Indeed, on the latest figures available to us and given this week by the British Government, from an annual rate of deficit in November 1967, before British devaluation—then an average annual rate of deficit of 1,000 million dollars per year—we have now moved into a position where it seems likely that we shall have a surplus this year of 1,000 million dollars. That is an exact switch-round in the British situation, which we are very pleased to be able to report. We are far from rejoicing, we are far from feeling secure. The trend is only just clearly emerging and is, we hope, unable to be diverted. But it is something new in the world's monetary situation.

We in Britain hope that this is not a temporary change in the British situation. If we had deflated in Britain, if we had caused unemployment, if we had stopped economic growth and obtained a balance-of-payments surplus that way, that is something that anybody can do. But as soon as we had reflated and allowed growth to start again, we would have had another balance-of-payments crisis. We have done the exact contrary. What we have done in Britain over the past four years of unpleasant work, high taxation and difficult days is to restructure the British economy at a time of rising production, so that we have held a constant zero increase in British home consumption. We have held at zero increase in real terms British Government expenditure, and we have cut it in some parts of the world. The whole of our increase in productivity in the past two years has gone into exports.

The result is the great turn-round in the British situation. That means that there is no reason why this situation should not continue. It is not one which, as soon as the period is over and the brake is let off, is bound to reverse itself and result in another balance-of-payments crisis. This we hope from the measures we have taken, from disciplining wages and productivity, from modernisation of our industry, from one effort after another. We are in the course of restructuring the British economy. That should be a permanent gain to us, and we hope that it will mean a steady surplus for some years ahead, at least at the present rate of approaching—I do not want to be too optimistic today—1,000 million dollars a year.

We shall not relax. There is no chance that Britain, by some foolhardy pre-election measure, will run into another balance-of-payments crisis. We have had enough. We are only grateful to our friends in the Council of Europe and in Europe generally for their patience with Britain during these recent years when we have been trying to get out of this permanent crisis of the British economy. I hope that in a year's time when we perhaps look at these measures again we shall all be able to heave a sigh of relief and say that my optimism was not unjustified.

That, then, is the first reason why I am optimistic about the future of monetary co-operation in Europe. One of the greatest difficulties—the weakness of sterling—is in the course of being removed.

But let us look at the other reasons for optimism. There have been so many advances in the past year in patching up the difficulties in the Bretton Woods system. As is mentioned by Professor Petersen in his report, there have been the Basle Agreements on the sterling balances, under which those balances, which are a permanent reason for monetary insecurity as soon as British sterling is under pressure, will not in future be a cause for disturbance and disequilibrium. The credits made available not only guarantee them but also guarantee them against further devaluation. So another cause of insecurity and instability in the European and world monetary situation has been removed, thanks to our understanding colleagues in Europe and the world.

Thirdly, we have had the agreement mentioned by Professor Petersen and Mr. Hougardy on the recycling of the hot-money flow. When speculation starts now, the bankers are ready to recycle the hot-money as it flows back to the country of origin, thus defeating the speculator in his attack on the currency. This is a great advance taken in a time of crisis and danger, but nevertheless it is a great advance to have cured this flaw which was never seen when the Bretton Woods system was originally developed.

Fourthly, newly passed this week, there is the system of special drawing rights which is adding $3,500 million to the world supply of liquid assets and thus lubricating world trade, in addition to the $4,000 million of credit already agreed in recent years which, in effect, increased world liquidity as described by Professor Petersen in paragraph 51 of his report. There again we have reason to be pleased that we have found a flaw in the Bretton Woods Agreements and healed it in the last year.

Fifthly, let us be honest about it, one great plus factor to give us cause for optimism today is the return of our colleagues in France to co-operation in the monetary sphere under the leadership of Mr. Giscard d'Estaing—whether or not we agree with him politically—which means we have a good European in charge of French monetary matters, one who is anxious whole-heartedly to co-operate in world monetary problems. Those five factors should relieve our pessimism.

Let me come now to one factor where the contrary was thought to be the case but which I believe is a cause for optimism—the French devaluation and the imminent German revaluation. What does it mean? It is a minus factor that all that took place without consultation by those countries with their colleagues. France devalued without consultation and Germany will revalue without consultation; but in essence it means that one of the biggest causes of insecurity in the European system in the last twelve months, fear over these changes in parity, have been removed. We should have a stable period ahead in which there is no reason to fear any further changes in the parity of European currency. In France following that devaluation we have a measure of self-discipline which is being imposed on the French economy. I hope that it will succeed. All strength to their arm. We have had some. We have had to suffer a lot of this discipline in Great Britain and it is not very pleasant medicine. I hope that it will succeed in France, too. It is good that France is feeling, as we have had to feel, that these things have to be gone through from time to time.

Looking at these changes in parity, however, is it not the case that their very unilateral nature and the danger that is thus exposed in Europe of doing such things unilaterally has brought us face to face with the danger of our disunity in this respect? The very fact that neither France nor Germany has consulted anybody has suddenly brought us face to face with the danger. Even our own colleagues are saying that if this goes on there will be mounting chaos. Surely the warning is now so clear that this should be the last time that changes in parity of this kind occur without real consultation, because we know the danger that is ahead if this goes on and on.

I am very optimistic today and have still three or four more suggestions. As number seven I would put the Memorandum prepared by Vice-President Barre of the European Commission. I welcomed it here in the Assembly of the Council of Europe within weeks of publication. I would again say what an important document I feel it is. It remedies a flaw in the Treaty of Rome and has led to wide discussion, as Mr. Hougardy has reported, in the European Parliament, which is all to the good. It means that we are all alerted to the way ahead as well as to the dangers if we do not take that way. The suggestions made by Vice-President Barre in his Memorandum are excellent, practical, and on present trends are bound to come about within twelve months or two years.

Coming to my last two points, surely we must take account of the fact that we need political decisions. Professor Petersen, Mr. Federspiel and others are saying that we are looking to political decisions for solutions to monetary matters. There is at least one we can record which is of great importance. France has decided to return to full participation in Western European Union. This is a great day. It is something we are very pleased to have and I hope it means a new era of real political co-operation in Western Europe.

Lastly, we come to the most important point of all which gives me cause for optimism. It seems possible at last that negotiations are to open for an extension of the European Community. If this comes about, it is surely going to be a time when consideration will be given to what economic union must take place in Europe. I would put it in this way : is it really likely that the six nations of the European Community will want to accept and offer membership to further countries into a Community which, in the words of some of my colleagues here this afternoon, is going through unresolved crises and even breaking apart? Those words have been used about the economic situation. I feel it is unlikely that the Six will want to invite new Members into a Community which is in these difficulties. It will want to resolve those difficulties, and to use the catalyst of the new application for membership to say we must solve not only the problem of enlargement but the problem of real economic union all in one go at the time these applications are considered.

I believe, therefore, that it is a cause for optimism in the monetary and economic spheres that negotiations seem likely to open and can only take place in the context of trying to put right many of the things which have caused my collleagues this afternoon to be distressed and pessimistic about the economic and monetary spheres. It will be a big negotiation of a big solution, a big step forward in Europe when the negotiations really take place. I hope it will mean that there will be an agreement on the lines of the Barre Memorandum in a period which, as I have tried to indicate, seems likely to be fairly calm. Bretton Woods has been patched up. There will be no more devaluation in isolation, and a period of relative economic calm will give us a chance not only to broaden membership of the Community, but at the same time to solve problems in the move onwards in the Communities, from customs union to the beginning of real economic union and integration of national economic planning in the way proposed by Mr. Barre.

There is one other way in future which seems likely to bring a solution and amelioration of the monetary situation. I have said that the main way will be the negotiations for enlarging the Communities, but there are also now the new proposals put this week to the IMF which I think are of supreme importance. The British Chancellor of the Exchequer has suggested to the Fund that a study be undertaken of the possibility of allowing a 2 per cent variation in parity each side of the fixed rate instead of the present 1 per cent. This would give a 4 per cent possibility of variation over all. In my view, this should go a long way to meet the pressure there has been for greater flexibility, and—this is the important point—should be a bigger weapon in the hands of the central banks in figthing speculators. That is the purpose of the proposition. I do not believe in "crawling pegs". Nor do Mr. Hougardy and Mr. Petersen, and Mr. Giscard d'Estaing, who has called it—rightly—"crawling uncertainty". The possibility of a 2 per cent variation on each side should go a long way to meet another problem of Bretton Woods.

The Chancellor of the Exchequer has put another proposition for study to the IMF. It is a rather novel suggestion. It is that there should be an extension of the Basle arrangements for guaranteeing the value of sterling balances in such a way as to apply to other currencies and reduce not only the capital loss, as in the guarantees for sterling balances, but also capital profits. This all sounds very technical, but the point is that if we could evolve a scheme rather like the Basle agreement guaranteeing sterling to counter the speculator by devaluing his possible gain after a successful speculation against the currency, we should have gone a long way towards healing one of the final difficulties in the present working of the Bretton Woods system, and the one difficulty which is causing so much trouble in recent weeks with the flow of funds into Germany. This suggestion has been put as a possible way of further improving the operation of Bretton Woods and making for monetary stability.

Practical steps have been taken in the last twelve months. There has been practical improvement in the British position and in a lot of other positions in monetary affairs in recent months. New measures have been taken by the IMF with further ones to come, which may improve the situation. There are political and economic possibilities ahead for negotiations for entry into Europe, by the application of the Barre Memorandum, which could lead to a more widely based Europe, with wider possibilities for monetary co-operation in the world and in Europe in particular.

I hope that this is not an unjustified list that I have given. But sometimes we should throw off our pessimism and try to realise that there are some good features in the situation facing us. I hope that in a year's time I shall have proved to have been justified in being guardedly optimistic about the future of European monetary co-operation in the months ahead.

The Chairman (*I*). — Thank you, Mr. Chapman.

May I inform the Assembly that there are still fifteen speakers on the list. I would therefore ask each one to bear that in mind when he speaks, so that all those on the list may have their turn.

I call Mr. Glinne, on behalf of the Socialist Group.

Mr. Glinne (*F*). — Mr. Chairman, Ladies and Gentlemen, the Socialist Group is certainly in agreement with the proposals made by our colleague, Mr. Hougardy, but there is no denying that their implementation is still remote.

We share his opinion, in fact, with regard to the need to establish a common European currency as soon as possible. We agree with the essence of what he said about a common economic policy and even a common foreign policy. And we go along with him even in his proposal to accelerate as much as possible the institution of direct election of the European Parliament.

While we agree with him, on this last point it seems to me more important to provide for considerable reinforcement of the European Parliament's powers, in view of the fact that the Community will have its own resources as from 1974. It seems to me inadvisable to provide for the election of the European Parliament by direct suffrage without closely associating with this new method the reinforcement of the powers of our institution.

We also agree with Mr. Hougardy when he says that the solution to the monetary problem cannot be essentially a technical one. It is quite clear that in such a field as this the political and the technical must go hand in hand.

Having said this, we should like to make a few remarks on Mr. Hougardy's report, and then something like a motion for an amendment. The remarks are the following, and I feel that Mr. Hougardy will not object to them. It is quite clear that the text of Mr. Hougardy's report was drafted before a number of very important political and economic events. I may even say, as far as politics is concerned, that it was written before the results of the French referendum.

This is bound to have consequences for our assessment of this extremely interesting report, which was nonetheless drafted, politically speaking, in a context which has been overtaken by events in France and in several other European countries, both by the series of monetary crises and by a number of not inconsiderable political events. So much so that today the position of several governments of member states of EEC may, in our view, be characterised as follows : these governments are aware of the reasons for accepting monetary integration, but at the same time they still wish to adopt essentially national solutions. There is a contradiction between the two poles of this attitude, and the speculative crisis of recent months and weeks cannot but reinforce this observation. Indeed, while some governments deplore the sickness of their currency resulting from weakness and other deplore the fact that their money is sick because it is too healthy, some authorities are heard to propose a sort of falling back on national sovereignty—a policy which at European level is unacceptable—whilst others are at a loss as to how to rescue Europe from speculation and from a number of other ills.

This situation moves us to the following reflection : we believe it is not possible, if we are to act effectively and without blind optimism, to wait until the political situation is favourable for the creation of a single European currency. This would mean waiting and hoping for the best rather than acting immediately.

For the second stage, which we shall soon have to think about, we feel that it is impossible either to wait for or to be content with Mr. Barre's proposals. The defect of these proposals, interesting in the pre-April-May 1969 context, is that they do not sufficiently ensure the automatic solidarity which the Six must show in their policies.

This being so, if we reject the perfection which would be too long in becoming reality, and are not satisfied with the present proposals of Mr. Barre, what do we propose?

In this connection I heard Mr. Petersen use an excellent British phrase: "We have to fall back on something in between."

It is perhaps a coincidence that I, a spokesman for the Socialist Group, am also Belgian, and you know the Belgian vice of *middelmaatisme* and the medium-term solution. It is therefore a medium-term solution which I commend to your consideration.

We should like, in fact, to make a proposal which indeed depends upon the affirmation of sufficient political will but which would not immediately require a total change of heart and attitude. This solution would of course involve a number of institutional reforms, but it is not essential to review the whole legal situation before beginning to implement such a reform. What we wish to avoid, I repeat, is a return to idealistic dreaming and resignation in the meantime to doing nothing. We propose a step forward which, it seems to me, would be most useful, drawing our inspiration from a phrase often used in politics in my country: "We must avoid both disastrous haste and ill-considered procrastination" ("Il faut éviter à la fois les précipitations funestes, mais aussi les atermoiements inconsidérés").

What we should like to put you is a sort of first draft, which would of course require further consideration. All this of course runs parallel to what technicians, specialists and publicists recently threw into the forum for discussion; I am thinking of the proposals made by Mr. Triffin and by Mr. Guido Cari. Moreover, European monetary problems cannot be tackled without having at the back of our minds, with some apprehension, the extraordinarily complicated, dangerous and threatening problem of Eurodollars and Euro-currency.

Our proposal—to stop beating about the bush—is precisely the following: we should like the member states to consider the possibility of agreeing on the creation of a European Monetary Fund of the type which was set up on an international scale by the Bretton Woods Agreements, a European Monetary Fund to which the central banks of the Six would contribute, with or without gold, all or at least a substantial part of their exchange reserves.

Once this had been done, a currency of account with unlimited convertibility and at a fixed parity with the currencies of the Six would be established, along with common exchange regulations, by virtue of which only the European currency of account could be held by banks in countries outside the Six.

The internal equilibrium of EEC itself would be guaranteed in the most traditional way, since the central banks would have to respect a cover coefficient between their circulation of notes and their reserves, including in these both gold and their accounts with the European Monetary Fund in cases of surplus or deficit. If such a system were instituted, a national government would have no alternative, apart from deflation—which would be very difficult and delicate for a host of reasons which I have no need the explain here—but to borrow from the Monetary Fund, since it would no longer be able to borrow from the central banks, and the loan could be made very expensive—in political terms of course— if the government refused to take the measures suggested by the Community.

However, such a loan could not be refused since changes of parity would be prohibited and the convertibility of the currencies of the Six guaranteed.

Clearly this type of proposal goes much further than what was suggested in Mr. Barre's report.

I should also like to emphasise that such a proposal would have major political consequences. Indeed, the rule of decisions by a qualified majority, which still exists in the treaties, but which, as we know, has been replaced in practice since the Luxembourg crisis by the rule of unanimity, would at last come into effect.

This would amount of a real relinquishment of sovereignty, without doubt less spectacular in the short term, or in the very near future, than the direct election of the European Parliament or a federal constitution. But it is my personal feeling that this system would have the advantage of bringing considerable progress in a whole range of both technical and political attitudes.

I am well aware that objections or reservations may immediately be made to this proposal.

I shall first be asked what would happen to this fine scheme if negotiations were opened with Great Britain and other non-member states for their entry to the Common Market.

This question may be answered quite clearly. It seems to me that in negotiations with Great Britain, one of the conditions for its entry to the Common Market would automatically be that it renounce, to the benefit of the European currency of account, the privilege of the pound sterling to serve as an international reserve currency.

Like each of the currencies of the Six, the pound sterling would be practically reduced to being an internal currency, and the role of reserve currency would fall to the European currency of account.

I would also point out that the European capital market could also be realised as soon as the agreement setting up the European Monetary Fund could ensure transfer at fixed parity between all the accounts of all the banks of the Six without any limit on amounts and without any exchange commission, so that the national currencies would no longer be quotable on the exchange markets.

I shall also be told that considerable technical obstacles may be foreseen, particularly the possible conflicting opinions of technicians on such important aspects of the monetary problem as whether or not help for a currency in difficulties should be automatic, or the famous problem of flexible exchange rates versus the system of fixed parities.

On the subject of automatic help, I shall confine myself to saying that the important thing is to fix an automatic maximum for such help, since this would constitute the main remedy in cases of inflation.

On the subject of the quarrel between schools of thought and between specialists on the problem of flexibility of exchange rates, I should like here, too, to refer to a fact in recent Belgian political history, from which a number of historical lessons may perhaps be drawn.

When the independence of the Congo was being discussed, there were two rival schools of thought in the Belgian Parliament. The one was formed by the partisans of decentralised unitarianism, the other by the supporters of centralist federalism. And between some of the partisans of the one or other of these alternatives, there were only tiny and very secondary differences.

I believe that between some partisans of fixed parity and some partisans of controlled flexibility the only differences are matters of nuance, and agreement may be noted between technicians who are otherwise fundamentally opposed to each other. I refer particularly to the publications of the authors I mentioned a moment ago, MM. Triffin and Cari.

Here you have some suggestions which are perhaps disproportionate in relation to the immediate possibilities of European economic and political integration, but which I believe were nonetheless worth making immediately, provided they respect, like any other suggestion, fundamental balances in the field of budgetary policy. We also hope that additional considerations, corrections, amendments or other proposals may be raised on this subject.

It was our concern, as I indicated at the beginning of my speech, to propose possible action over the medium term without awaiting a political situation favourable to the establishment of a common European currency, which, I repeat, is a desirable, but for the time being, necessarily remote objective.

Let me add in conclusion that in the view of most, if not all of public opinion in our states, what broke down recently in European policy was not agricultural policy, it was not other aspects of European integration, such as the operation of the

Parliament; what broke down in recent months, what struck a public committed to the European idea, was what happened in the monetary sphere, in France, in Germany and consequently in other countries.

Since the monetary aspect has assumed such importance, there are many of us who believe that it is on the basis of this monetary crisis that political proposals must be reformulated, aimed both at European public opinion and at national parliaments and executives, which might have the virtue of announcing the total and very necessary relaunching of European integration.

In making this proposal, we may say, with the last speaker, that the problems we have to face must be looked at in a spirit of optimism. *(Applause.)*

The Chairman (*I*). — Thank you, Mr. Glinne.

I call Mr. Blumenfeld.

Mr. Blumenfeld (*G*). — Mr. Chairman, I am speaking in this debate as the spokesman of the Political Affairs Committee of the Consultative Assembly. Consequently, apart from a number of political remarks and comments on foreign policy, I shall in essence be concerning myself with the same theme; and so, if the experts on financial and foreign exchange policy do not agree with this or that point of my argument, then I ask their indulgence.

As I see it, the reports before us by MM. Hougardy and Federspiel hit the nail right on the head where the present situation is concerned. Their analyses are excellent and their conclusions are to be welcomed and supported. As the two reports have quite rightly emphasised, there is no doubt that the causes of the foreign exchange problems in Europe and the rest of the world are political and are connected with the radical change in the political structure of the major geographical areas of the world. Great Britain, as—if I may be allowed to call it such—a great power in decline, is affected just as much by the developments and upheavals which place too great a strain on its financial resources, as the present Western world power, America, whose financial resources are not unlimited either.

The United States' world-wide political and economic commitments have led over the last twenty years to an abundant supply of dollars which can no longer be absorbed by America itself and therefore exerts constant pressure on the exchange rate of the dollar.

Efforts so far made to achieve a dollar balance of payments have just not been sufficient. An effective measure might perhaps be the cutting back of American overseas investment; but the American Government has little influence over such investment. In recent years, these surplus dollars have very largely led in Europe to an artificial inflation of international liquidity, whose effects in the individual European receiving countries has been to provoke a boom on the one hand and inflation on the other. Of course, no-one would advocate the sudden withdrawal of this international liquidity, because of the serious effects this would have and because a serious restriction of liquidity would be bound to conjure up the even greater danger of a world economic crisis. This brings me to the conclusion that the problem of the dollar—and the same applies to the pound sterling—can only be solved by stages.

I listened with interest to our colleague Mr. Chapman's optimistic—though his optimism was not unqualified—account of the English balance-of-payments, the development of exports and the stability of the pound. If I may be allowed to say so, I am not so sure whether this newly observed trend will necessarily continue, much though that is to be wished. I believe that many more difficulties remain which have not been mentioned by our friend Mr. Chapman.

Turning now to Europe, I am in complete and wholehearted agreement with Mr. Hougardy; the crucial problem is indeed the fact that the EEC institutions are still limited in many respects and all our efforts towards integration have been able to achieve no more than the abolition of internal customs duties and the creation of the agricultural Common Market. The latter—the agricultural market—since the French devaluation and the floating Deusche Mark is in fact no longer integrated. I shall come back to this point briefly later. The national European governments—and this seems to me a crucial problem—continue to bear responsibility for the welfare of their own countries and their economies, although they no longer have the authority to act independently in all fields of the economy, their freedom of action being limited by the existing institutions of EEC and the Rome Treaty.

But the Commission in Brussels, too, has only limited freedom of action—because of the action taken on all sides by national governments. In the long run, this means that nobody bears real responsibility. And in a market of over 190 million people that is a very disturbing state of affairs.

I believe, therefore, that the following must now be urged on the Council of Ministers, the Commission and the national parliaments : harmonisation of economic and budgetary policy and the freest possible movement of capital. This would also lead—as has already been said in this debate—to more uniform social, incomes and taxation policy. This would in turn result in more uniform price levels in the countries of the Community and thence to satisfactory balances-of-payments and realistic exchange rates which would no longer have to be brought in line with each other, as they do now, through devaluation or revaluation.

Unfortunately, we already once again have in Europe, and within EEC, countries with low and countries with high price levels; if this situation is allowed to continue within the Economic Community, then it is doubtful whether the present absence of internal customs duties can be maintained. The total abolition of customs duties within EEC has brought foreign exchange problems more and more to the forefront, because what was formerly regulated through customs duties now has to be regulated through exchange rates.

Of course I am well aware that a uniform economic policy would provide no protection against inflationary developments if it were itself inflationary in conception. Such inflation would at least be synchronised, however, and would thus have no effects on currencies and exchange rates within EEC. This would, however, give rise to another problem in relation to our trading partners outside the Community, because our products would then become too expensive.

I conclude, therefore, that if we do not settle in EEC the great crucial problems of which I have just spoken, then I fear the work of the last ten years will have been almost in vain.

With regard to Mr. Federspiel's suggestion for a European reserve currency, let me say this : Of course such a system must be set up on as broad a basis as possible. The difficult problems of sterling, however, cannot be conducive to solving the foreign exchange problems in EEC. An independent EEC currency system would therefore hardly be practicable unless preceded by integration.

In discussions in recent days and weeks, the question of flexible exchange rates has once again been thrown into the limelight. Let me say, in my view, flexible exchange rates are a dangerous method; they open the flood-gates to inflation, create enormous difficulties for industrial exports and would, I consider, threaten the very existence of the Community; they are therefore out of the question. Speaking as a German member of parliament, I believe I may say the same on behalf of the German Government.

A quite different question, Mr. Chairman, already touched upon by Mr. Chapman, is that of widening the acceptable limits of variation in exchange parities; I would suggest doubling them, without however allowing changes in parity to occur automatically; such changes—and I emphasise this—must always be the result of government decisions.

Let me now— as a German member of parliament make a few personal remarks on the most recent developments in German foreign exchange policy and the exchange rate of the mark.

As soon as a new government has been elected in Bonn, the floating rate of the mark will have to be fixed. That may, I repeat *may,* be equivalent to a revaluation. But only, and I emphasise this, if at the same time the present 4 per cent import subsidies and corresponding export surcharges are abolished.

Mr. Chairman, the German Federal Bank—and I think this must be pointed out here—has acted in recent weeks with care and circumspection and has the development of the exchange rate of the mark under control. No speculative development will therefore unduly affect a new government's decision. Allowing the mark to float has—and this too is a personal opinion—led to new difficulties in the agricultural market.

The Federal Government's request, on the basis of Article 115—and I admit that this Article does not fully lend itself to this—to levy frontier charges, was rejected by the Commission. The Commission suggested completely closing the German frontiers to agricultural imports. This suggestion was quite rightly resisted by the German Government. In order to settle this difference in the spirit of the Rome Treaties, however, Bonn has appealed, or will appeal, to the Court.

I believe it should also be said here that we Germans wish our measures to create as little disturbance as possible in a difficult transitional situation until the question of the parity of the mark is finally settled. We shall know in November whether all the European governments, including the Commission in Brussels, have already directed their attention to the basic questions raised here or whether they are only just about to do so.

Mr. Chairman, time is short! As Mr. Hougardy has said, we must tackle the basic problems of political decisions in our member states and member governments. These problems do not exist only in individual sectors of foreign, armaments or defence policy, but embrace the whole field. If these problems are not tackled, Mr. Chairman, then there are difficult times ahead in 1970. *(Applause.)*

The Chairman (*I*). — Thank you, Mr. Blumenfeld.

I call Mr. Dequae, on behalf of the Christian Democrat Group.

Mr. Dequae (*N*). — Mr. Chairman, I should like first of all to stress the world-wide nature of present-day monetary problems. At the same time, though, I should like to demonstrate to the Assembly that the monetary provisions of the Treaty of Rome are quite inadequate. It is certainly impossible to find a solution to European monetary problems except in a global framework. We cannot isolate ourselves in this matter. There is no doubt that the monetary problem must be solved in a world context. But that does not alter the fact that better arrangements at European level could make a considerable contribution to a solution at world level. It is consequently a matter for regret that the Treaty of Rome says little about monetary matters, except for a few clauses on the balance of payments, the procedure for mutual assistance and the institution of the Monetary Committee. Fortunately, however, actual developments have gone further, thanks to the quarterly meetings of the Finance Ministers which were instituted in 1966 on the initiative of the German Finance Minister, Mr. Etzel.

Steps were then taken not only to give more power to the Common Market's Monetary Committee but also to make it responsible for preparing international monetary contacts. It has achieved much in that respect. The governors of the central banks have also been invited to attend the three-monthly meetings, and this too has yielded fruit.

In addition, the Committee of Governors of Central Banks was officially set up in 1965. I can testify that the three-monthly meetings of the Finance Ministers contributed in a large measure to the creation by the industrial countries of the Club of Ten, which has worked towards the solution of monetary problems since 1964-1965.

And yet all this has proved inadequate. Of this, everyone in Europe, and outside too, in convinced. From that conviction has grown not only the proposal from Mr. Werner, Prime Minister of Luxembourg, but also the suggestions of the Commission as formulated by Mr. Barre. In any event, these have come too late to weather the present monetary storm. And in my opinion the proposals do not go far enough—not far enough even to cope with Europe's internal difficulties. I remain convinced of the need for a planned transition to a European currency unit through the medium of complete economic integration. This is the only possible way of eliminating future balance-of-payments difficulties. It would certainly simplify monetary problems at world level, too. At all events, the intricate mosaic would be somewhat simplified by the introduction of a European currency.

I should next like to illustrate a number of fundamental monetary problems at world level. The real monetary problem is the settlement of international transactions: money is only a means to this end. International trade has risen very steeply in the last fifteen years and, thank heavens, is continuing to rise. It can only be transacted by means of internationally accepted liquidities. Trends in international liquidity are a source of anxiety, not so much from the point of view of quantity, though that is a problem too, but perhaps even more from the point of view of structure. The first element in international liquidity is undoubtedly gold; and whatever may be said about it, it has proved to be the best. But monetary gold supplies have been falling in the last three years. Even in Europe, after a certain increase, we have fallen back to the 1961 level.

The second element in international liquidity, the reserve currencies represented by the pound sterling and the American dollar, suffer from a lack of flexibility. Past rises have considerably weakened these reserve currencies; this applies most to the pound sterling, but it also holds true for the dollar. A further increase is certainly not desirable. The regularly recurring attacks of international anxiety over reserve currencies would certainly become more acute if there were a quantitative increase. This means that credit facilities may well be the only way of maintaining international liquidity or increasing it in the years to come. We are familiar with the IMF drawing rights. These have already been used on two occasions. The views of the Group of Ten are the deciding factor here. In addition, swap arrangements have existed for some years not between the central banks. Tomorrow we may have special drawing rights. But nobody will dispute that the extension of credit facilities—even on the conditions attached to the various facilities—is not without its dangers. In theory, there is no danger on the face of it, since the total world picture is always one of the balance-of-payments equilibrium. Deficits on one hand inevitably cancel out surpluses on the other. But if the game is to be played properly, the first essential is complete solidarity between states on this question. Recent developments have not proved too reassuring. Above all, there must be sufficient willingness—political will, as Mr. Blumenfeld has said—to accept the necessary degree of discipline. This means not only that countries which are running a deficit must apply themselves to making it good within a given time-limit, but also—and this is all too easily forgotten—it means that countries which have excessive surpluses must in turn make the effort to achieve equilibrium. And all this, as has been repeatedly emphasised, can only be done by the harmonisation not merely of the economic policies but also of the budgetary policies of the various states.

Finally, I should like to draw the attention of this Assembly to a number of incidental aspects that have evolved in recent times. Their effect is to render much more difficult still an already highly complicated monetary problem. It must surely be obvious to everyone that the monetary problem stems only to a limited degree from unsatisfactory trade balances. Lately, it has been financial transfers that have been most significant, and at the same time most dangerous.

The principle of "transferability" has enabled a mass of Euro-currencies—sometimes called Eurodollars or by some other name—to detach themselves from the national economies. They circulate freely as floating capital and settle wherever interest rates are most attractive, and especially where the least risk exists or where there is a chance of revaluation, as in West

Germany. And there is a huge sum involved. This floating capital is estimated at between 15 and 20 thousand million dollars.

No single country and no currency in the world is capable of withstanding a sudden transfer of monetary resources of that order.

There is another phenomenon which complicates the issue : the fact that the public at large is nowadays more aware of monetary problems than it ever used to be. These problems were once the preserve of a few specialists. Now they are a subject of general interest. They are discussed in the press, which after all has a duty to inform, and in other media too.

It is probably the first time in history that the most important slogan in an election campaign has had to do with monetary problems. That is a thing which has never happened in the past.

All this of course makes the problem no simpler. And furthermore, the factors are not easy to counteract. The only direct way of checking transfers of floating capital is what is called "recyclage". That is a resolute answer, certainly, but then care must be taken that speculative movements derive no benefit from it, nor, when the "recyclage" process is completed, must they be allowed to start all over again.

This is a technique which calls for closer investigation.

I know that a great many countries try to neutralise these transfers, at least in part, by exerting pressure on their internal credits or on consumer credit in their own country.

But that approach does not yield satisfactory results; what is more, it involves the risk of damping economic activity and economic growth in the various countries without removing the cause of the evil, namely monetary transfers and speculation. In my opinion, therefore, it is not a successful remedy either.

We have not yet, I think, reached the end of the tightrope. We are at present in a very tricky and perilous situation.

The decision of the Federal Republic of Germany to allow the German mark to float is very worrying. It is to be hoped that the mark will again be tied to a fixed exchange rate as soon as possible.

Unlike what some people here appear to believe, I do not think that floating exchange rates, or exchange rates with wider margins within which they then proceed to slide gradually, can offer a solution. On the contrary, they make for permanent uncertainty, limited though it may be.

The most dangerous aspect of floating exchange rates or wider margins, however, is that they provide no incentive to efforts at recovery. There is a temptation simply to let things slide. A gradual slide is always less dangerous and less painful than falling over a cliff. Psychologically, I think, such a solution would mean a very heavy burden.

Clearly—this has been emphasised by various speakers—the core of this problem is the need for every country to adopt an economic policy and a budgetary policy capable of preventing such balance-of-payments slides. This is undoubtedly the decisive factor, but a good monetary policy at national level is necessarily hard, and it involves restrictions on credit facilities. Every country is finding it increasingly difficult nowadays to pursue such a policy, because the political pressure of the population is always exerted in another direction, namely towards easier credit. Let us hope that economic harmonisation and integration of important parts of Europe and the world will be achieved and that the political will needed throughout the world manifests itself. If not, then in all probability we shall be called upon very often to discuss monetary problems. *(Applause.)*

The Chairman (*I*). — Thank you, Mr. Dequae.

I call Mr. Cousté, on behalf of the European Democratic Union Group.

Mr. Cousté (*F*). — Mr. Chairman, Ladies and Gentlemen, I should like to concentrate my remarks and suggestions on the theme set for debate and not on a number of other subjects concerned with the monetary problem.

I shall therefore concern myself essentially with the minimum conditions for the success of European monetary co-operation, deliberately leaving on one side the examination of the activities of the European Parliament from 1 May 1968 to 30 April 1969, which constitutes the second part of Mr. Hougardy's report, although it shows the importance of these activities, linked as they are to the activities of the Commission of the European Community and of the Council of Ministers, which are the envy of those here today who belong not to the European Parliament but to the Consultative Assembly of the Council of Europe.

I can see their point of view, but I should like to concentrate my explanations and my suggestions on the minimum conditions. They are many, Mr. Hougardy; I have counted fourteen of them of varying degrees of importance, sometimes linked the one to the other as cause and effect. These minimum conditions are preceded in your report by an analysis, which on the whole meets with our agreement, of the situation of our Community, and by a remark which is accurate at the world level, namely that the monetary geography of the Western world no longer reflects its political geography.

We could comment at length on the consequences of this most perspicacious and far-reaching judgment, but we shall confine ourselves to observing that once this judgment was pronounced, one question naturally came to Mr. Hougardy's mind, which has not been disputed by our other colleagues and Rapporteurs, MM. Federspiel and Petersen: what, in this situation, is the role of Europe?

The question of its readiness and ability, to use your terms, is indeed raised, and it is raised in terms which, in my view, inevitably reflect the difficulty of our position and our future in this field.

Indeed, it is sufficient to have heard what we have heard, to read what you have written, Mr. Hougardy, to realise that we all use words and expressions in different senses when we speak about European currency, European monetary union, European monetary zones and finally European reserve currencies.

These are not all the same thing. If we had the time—but we know that we are pressed for time, Mr. Chairman—we could examine the importance of words in a field where mere words are not enough.

You did well, before turning to the minimum conditions, to recall in your oral report that since 4 July last we have lived through events which for an observer, an economist, are truly unique experiences, since we have seen the apparent contradiction in these few months of an affirmation of the Six's solidarity in the adoption of what Mr. Chapman called the Barre Plan. But there is no longer any such thing as the "Barre Plan"; there is a decision by the Council of Ministers of the Community which has made it the monetary policy of this Community. Over and above the event which tightened that solidarity, two other events have occurred which contradict it or at least appear to do so: first, the August devaluation of the franc which, for obvious reasons of secrecy, had to be effected in conditions whose suddenness was welcomed, but also the German Government's decision of 30 September to allow the Deutsche Mark to find its own exchange rate.

I shall say presently what I think on this point. What the Commission thinks is not so very far removed from my own idea.

Then we have the meeting of the International Monetary Fund at which, on a far wider scale than Europe, it is being envisaged, nay decided, to increase international monetary resources in order to promote the expansion of world trade—a good thing—through the creation of special drawing rights.

There is finally a promise the importance of which I must stress before turning to the minimum conditions: that of the meeting on 16 and 17 November next of the Conference of Heads of State and Heads of Government. There is no need for me to say here what hopes, but also what difficulties, this news may produce after all these events and in face of all the problems which are raised both within and outside the Community.

After having examined this internal structure of the Community, what are then the minimum conditions? We, Mr. Hougardy, share your own views on this. We are too much committed, all of us, to the construction of Europe not to realise that either we must move towards economic union on the basis of a customs union, or we shall not even have an economic union and we shall perhaps be no more than an enlarged free trade area, and everybody knows what a free trade area, even an enlarged one, represents in the way of diminution of cohesion and what it will mean in the future for the well-being of our peoples.

For a long time, as you said, there has been general agreement in recognizing the accuracy of the analysis of a situation which must develop towards economic union and not stop short at a customs union. You add, quite rightly, that these difficulties are due to the contradiction between that greater mutual dependence between the economies of the Six, as a result of which some countries export more than 50 per cent of their production and the fact their foreign trade represents more than one-third of their national income. When one weighs up the percentages which I quote one realises just how necessary it is that the result of this interpenetration, in a word of this success of the Community on a commercial level, should be echoed in the organisation of a true economic union, really following common policies in all fields and not only in that of agriculture.

That is my analysis, but it also reflects the preoccupations of the French Government. That is why the French Government rightly says—and I believe we shall be understood in Europe, as we have been quite recently—that we must complete a three-phase programme in succesive stages.

We must complete the transitional phase in which the European Economic Community is at the moment, and we must do so before 1 January 1970; we must develop the Community, that is we must turn it from a customs union into an economic union; finally we must examine reasonable conditions for its enlargement. Such are the three steps which we have to carry out successfully.

Having said that, we are not so very far away from an examination of the minimum conditions. If we group them under one main point of view, they are of three types, and they also pose, as you have quite rightly said, a problem of democratisation, that is, of the participation of the peoples of Europe in European common policy. They also pose the problem, which I shall approach with some reserve, of the prior political conditions for monetary and economic action.

The three main conditions are : fixed rates of exchange within the Six, the co-ordination of short and medium-term economic policies and, finally, the operation of automatic solidarity machinery.

First, fixed rates of exchange : until recently we had known real fixed rates of exchange since the entry into force of the Treaty of Rome and we had not realised that they were just as important to our economies as the air we breathe is to us as individuals. That went without saying. What went without saying was challenged first by the devaluation of the French franc and then by the measures taken by the German Government tending, as you know, towards a floating rate or exchange for the Deutsche Mark.

However, I subscribe to Mr. Hougardy's little phrase—but little phrases are very important in politics—when the rightly says that the effects of a flexible system of exchange rates would run counter to the aims of the Community treaties.

It is just because you are right that nothing is worse—and it is not an example to be followed—not than changing a parity even in difficult circumstances, but than allowing an exchange rate to fluctuate uncertainly.

The Commission's reaction, was, for me at least, quite understandable. Having once noted a step backward in relation to 1958 and the Treaty of Rome, I think we must first re-establish —and that is not merely a minimum condition but, as Mr. Hougardy has said, an essential pre-condition—fixed rates of exchange between the Six.

Mr. Chapman, referring just now to the proposal to increase the International Monetary Fund's variation figure from 0.75 to 2, said that this measure would permit a variation of the order of 4 per cent. He is mistaken. It would mean a variation of 8 per cent. All of us who are familiar with the problem of exchange rates know that, for example, if we take the International Monetary Fund's figure of 0.75, that means that the figure of 0.75 may be pushed to 1.5 on either side of the rate, giving a variation of 3 per cent. That is what it means.

Consequently, one is either for fixed rates or one is against them, but if one is for fixed rates, despite the discussions that are taking place at this very moment in the International Monetary Fund, one knows very well that one is sticking to a fundamental rule of the Bretton Woods Agreements, of the International Monetary Fund, and that until we find something better, this way of conducting business has produced results in world trade, for it provides certainty and security in trade and invisible operations.

That is of prime importance if we really wish to serve not only the union of a continent but the needs—and God knows they are important—of the whole world, not forgetting the needs in this respect of the developing countries.

Flexibility must therefore be rejected, fixed rates are indispensable.

I feel, Mr. Hougardy, that your attempt to define fixed parity —which you attempt in my view very successfully at page 14 of your report—must be retained.

You put it very well.

> "What (fixed parity) boils down to is that the relative value of the Deutsche Mark must be identical to that of the lira, the guilder and the franc, i.e., the value of national currencies relative to those of outside countries must remain the same."

That is the fundamental point. And you add, because you are concerned, as we all are, not only with monetary but also with economic problems :

> "But this also means that increased efficiency in one part of the Community"—efficiency here meaning prosperity—"will benefit the Community as a whole",

that is, you recall that fundamental law of Community solidarity.

I think that on this point we might pose one last question. And I put it to you with all the gravity and the consequences it represents.

Is it reasonable for Europe to continue to conduct all its economic operations, and more particularly those of farmers and stockbreeders, on the basis of a unit of account which is after all not European?

In putting this question I am of course aware of the magnitude of the problem raised. But when I assess, as assess I must, the situation of farmers in each of our countries—I am thinking of course especially of the French but also at the moment of the Germans and tomorrow perhaps others—it is my duty to ask this question on their behalf, because they may wonder whether their future does lie in a Europe which they were told was their hope for the future.

I must add that in this situation we must be very careful. And since we have the opportunity in this debate to put a fundamental question, I shall not be so cruel as to ask the Commission for an immediate reply, but I serve notice that I shall want to know whether we shall tomorrow have the political strength to answer it.

The second condition concerns harmonised economic policies. And there, we must say that considerable progress was made, contrary to all expectations, when the Commission's Memorandum, presented by Mr. Barre, was accepted by the Council of Ministers and became a Community decision.

I for my part welcome this decision because it is linked in time to a speed corresponding to our needs. The Memorandum was tabled on 12 February and adopted on 17 July. And I know how many texts have been discussed by this Parliament, presented by the Commission and still remain unanswered by the Council of Ministers.

That is a step forward, and it must be noted, for three fundamental principles have thereby been adopted.

First, we have adopted the principle of ensuring convergent trends in national guidelines for medium-term economic policy.

When we know that to achieve a union and then unity, a real effort must be made, and that the responsibility lies first of all, as Mr. Petersen quite rightly said, with governments, these must endeavour to make their national policy fit the requirements of their own Community decisions.

This short-term economic policy—and this is the second principle—must also fit in with the medium-term policy guidelines that have been adopted.

This being so, the Council must be congratulated on having decided in the autumn of this year to institute a fundamental debate between its members on the methods of medium-term policy on the basis of a study by the Commission.

So far as I know, this study has not yet been submitted. I hope that it soon will be and that the debate may open shortly.

But what is no doubt even more interesting is the third and last principle, namely that of the machinery for monetary co-operation.

I am not a maximalist, unlike my colleague Mr. Glinne, who said just now that we must do much more and to it straightaway.

I believe that by trying to do too much all at once we are likely to place ourselves in an untenable position in the matters we are concerned with.

Once the principle has been established, and once the experiment promises to turn out well, we shall then have the opportunity to advance further in the direction of monetary co-operation machinery.

I believe that then we shall have demonstrated the solidity of our Community in a very difficult field.

In a word, we feel that the Council's decision, the monetary principles which have just been adopted at the instigation of the Commission, are the way of the future.

The other conditions are very numerous and very interesting; they would each deserve long examination and I should very much like to see a full debate in the European Parliament on a report of such quality as the one now before us.

We are told there should be movement towards the creation of a common capital market—my colleague Mr. Bousquet, who will speak on Thursday when Mr. Dichgan's report is presented, will show how positive our spirit is—towards the co-ordination and harmonisation of social charges and taxation, towards the harmonisation of monetary reserves policy, towards common guidelines for the supply of capital in the Community, towards a uniform attitude in the international monetary institutions and, you rightly add, towards greater solidarity between the Six within the Group of Ten.

All that is true, those are necessary additional conditions. You then add a final very interesting condition, which I think should be accepted: the harmonisation and co-ordination of budgetary policy. How right you are in view of the size of the budgets in each of our countries, in view of the inflationary effect of public expenditure within one economy!

But there is a budgetary committee. These institutions —and we are coming to one of your great concerns—should be closer to those who have political responsibility. In the long run, that means fulfilling your twelfth condition, the democratisation of economic life.

On this point, I must tell you quite frankly that we should be very satified if, as you say—and this little adverb is important—we, the European Parliament, were obligatorily consulted. It seems to us that, without speaking now, too early, of European lists of candidates, of elections to which we are by no means disinclined, it seems to us that if there were such an obligation, we should be in a far better position to control the action of the European institutions and consequently to be better informed of what goes on in those numerous committees of whose existence you remind us, whether it be the Monetary Committee, the Committee on Business Cycle Policy, the Committee of Governors of Central Banks, the Budgetary Policy Committee, the informal meetings of Finance Ministers and finally the Medium-term Economic Policy Committee.

We know full well that the Council of Ministers was aware of the difficulties which would have to be overcome and that it has made a number of excellent moves.

I feel there are indeed interesting points in your political observations in this field. One may in fact wonder, as I do, whether the monetary problems did not play—this should certainly be for a future analyst to determine—a very important part in recent political events, both in France—I am thinking of the referendum of 27 April—and in Germany, in the elections of 28 September.

I have a feeling that if an analysis in depth were made of the psychology of the electorate, motives would be found explaining a number of changes, a number of attitudes, a number of new percentages by a sort of monetary concern, so true is it that monetary transactions form an intimate part of each citizen's daily life.

But I shall say no more on this point; I merely ask the question and go to another aspect raised by Mr. Hougardy, when he said that

> "any progress achieved towards a common economic and monetary policy depends on the progress made in establishing a common foreign policy and on the possibilities which exist in this regard".

I must say that on this point I am not in complete agreement with you. You say in fact, that defence, international credit and development aid are fields in which the policy of the countries of the Community is still strictly national.

That is not quite accurate—fortunately! When you think of international credit, particularly of development aid, you cannot but think at this very moment of the association between EEC and the African and Malagasy States, an association which we have renewed by the Yaoundé Convention; surely you can see that we are committed to a path which is not merely national? On this point, therefore, I have some reservations on your observations.

I now come, finally, to your last condition, which clearly interests you a great deal and which you call "the political threshold of the Community process". You say, and I quote:

> "We must bow to the facts: the advance towards political unity, and thus towards an independent destiny for Europe, cannot be begun until economic and monetary policy are conceived, understood and desired as the instruments of a common overall policy."

And you repeated this sentence word for just now in your oral report.

If by this you really imply hope in the Summit Conference in November, then I agree with you; but if, as might be supposed from certain contexts in which you say that the European Economic Community was and is necessary, but politically it is an attempt to evade the issue, your intention was merely to affirm that the problem of co-operation pure and simple does not necessarily provide the impetus for a common policy, then I must say that there we have material for a long debate.

For it is by no means certain in the long run whether joint concerted action in an economic union will lead to a political union; there, too, political will is necessary, and I hope that at The Hague, when Heads of State and of Government meet, they will express a political will to unite Europe in all the fields which we know to be crucial and especially, first of all, to complete this European Economic Community and perhaps to strengthen and enlarge it.

Those, Mr. Hougardy, are the essential points I wish to raise, and the contribution I wish to make to this debate which, I repeat, is very important for us, for we are well aware that behind the franc, the Deutsche Mark, the pound sterling, the dollar it is the destiny and happiness of men, the daily lives of us all, our material welfare which is at stake. In a word, what matters is that we as politicians should always be concerned with finding ways and means to achieve greater solidarity between men. For us, in any event, one of the best ways is the building of Europe. *(Applause.)*

The Chairman (*I*). — Thank you, Mr. Cousté.

I call Mr. Aiken.

Mr. Aiken. — I was glad to have the privilege of hearing the three Rapporteurs, Mr. Federspiel, Mr. Petersen and Mr. Hougardy, expounding on their very valuable papers. There are undoubtedly some hopeful signs that the world is moving towards a better appreciation of the fundamentals of international finance, and all of us welcomed the action of the International Monetary Fund in taking steps to increase international reserves as and when required.

In dealing with our European situation, we must realise that, as Mr. Federspiel said,

> "the decisive factor remains the extent to which governments are prepared to co-ordinate and integrate their national economic policies."

In his report to us, Mr. Hougardy said that

> "one of the minimum conditions for monetary co-operation was co-operation in economic policy, which must gradually become mandatory."

That idea was expressed in other words by Mr. Petersen, when he said that

> "what is required for successful monetary co-operation is first and foremost a better appreciation of the national self-discipline required to maintain an orderly international monetary system."

Some of the crises that have occurred in recent years and have needed very strong and unprecedented action in the monetary field by financial authorities have highlighted what Mr. Petersen said on page 18 of this report. He said:

> "... it has to be recognised that the international monetary structure is already so wormeaten that no one dare let folly reap its 'just' deserts for fear that the whole structure will come tumbling about our ears."

There is little doubt that we want, if we can, to co-operate and find a means of bringing our combined influence here in Europe on all the governments of Europe, whether they are in the Community or are other Members of the Council of Europe, not only to act as good Members searching for European unity but also—those of them that are creditors—to act as good creditors.

As Mr. Petersen pointed out, any balance-of-payments deficit by one of country is necessarily reflected by a balance-of-payments surplus or surpluses elsewhere. We must try, if we can, to level out, so that there will be neither dangerous deficits nor dangerous surpluses.

The Community must be careful that it does not get too inward-looking and think only of the interests of the six present Members. It must also have regard to the fact that some of the policies which have been operating for some time-quotas, restrictions on imports—are causing a great deficit in the balance of trade between the Six and other Members of the Council of Europe who hope some day to become Members of the Community. For example, in 1968, Ireland imported goods worth \$192 million from the Six but only succeeded in exporting to the Six \$73 million worth, leaving a deficit for our small country of \$120 million. We have done our utmost over the years, by trade negotiations and diplomatic representations, to get that deficit reduced.

I agree that the Members of the Six and the other Members of the Council of Europe should in financial and economic matters try to act as good Members, conscious not only of the need to promote the welfare of their own peoples, but also of the fact that it behoves them not to act in a way which will harm the rest of their European partners.

Back in 1958, when things were different, the European economy had a lot of difficulties. It was bedevilled by the height of the tariffs and by the extent to which European trade was covered by quota systems. The European countries then combined to establish OEEC—it is now OECD—and it was determined to found the European Payments Union. One of the factors that made a success of the EPU, and which helped to build up European trade to the extent of 40 per cent within about two years, was that there was a certain amount of compulsion backing the self-discipline which Mr. Petersen has asked for.

As a former Minister of Finance, I always like to feel there is a little bit of pressure behind the self-discipline of taxpayers in paying what is due to the government. In this case, whatever system we evolve here in Europe, and whatever monetary system is eventually evolved in the world, I hope that that element will be in it and that not only will it be a cause of satisfaction to each Member to act as a good creditor when he has a surplus, but it will also be to his advantage.

I am glad that the Economic Committee is to co-operate in examining what further measures might be taken in the financial field, so that we here in Europe, whether we are Members of the Six or whether, within a couple of years, the Community becomes Ten or Eleven, will do our utmost to see that all the European countries that are Members of this Council of Europe will co-operate and discipline themselves, and help discipline the other Members, in seeing that there are in future no great surpluses and no great deficits, at least in the area over which we can hope to have some effective influence, over the area of the combined membership of the Council of Europe.

The Chairman (*I*). — Thank you, Mr. Aiken.

I call Mr. Martino.

Mr. Martino, *Member of the Commission of the European Communities* (*I*). — Mr. Chairman, on behalf of the Commission I should like to associate myself with Mr. Hougardy's other colleagues in congratulating him on his report. It has certainly produced what has so far proved a full, lively and interesting debate on the vital subject of the political necessity for European co-operation in the monetary field.

In his speech today, after describing the Community's present situation and the difficulty it was experiencing in passing from economic to political union, the Rapporteur touched on the question of its enlargement as seen from the monetary aspects. One might have supposed, if he was going to refer to the matter at all, that he would have done so in a wider context than that of its monetary implications—that he would also have mentioned other aspects such as the opening of negotiations which could in a sense be described as the most immediate problem, the extent of the enlargement and the problems bound up with it. It is true that some allusion has been made to these questions by Mr. Chapman, Mr. Federspiel and the last speaker, Mr. Aiken.

Coming at the end of this part of the debate, I shall content myself with replying to those who have dealt with the question of enlargement. I shall also take the opportunity of telling the Joint Meeting about some of the ideas which prompted the Commission to prepare the document which it sent to the Council of Ministers yesterday.

In reply to Mr. Federspiel, let me point out that the truth is that the United Kingdom, Ireland, Denmark and Norway have never withdrawn their applications for admission to the Community. Those applications come from European countries, all of which have expressed their readiness to accept without reservation every one of the Community's objectives with regard to economic integration and political union. For that reason, it is our view that their applications ought to be considered together and none of them given priority.

The admission of new Members to the Community implies, moreover, that they, on their side, accept not only all the provisions of the treaties but also the decisions adopted since the treaties came into force. Those decisions have become an essential element of the de facto solidarity which binds the Six together and so also fundamental element of the Community's existence. That is why, in our view, specific problems should in general be solved by the adoption of interim measures rather than by amending the existing rules.

It remains to be seen whether the obligations assumed under the treaties—and to which the EEC member states are already giving practical effect—will be enough to ensure the successful functioning of an enlarged Community, or whether some more precise undertakings may not be required from old and new Members alike. There is one point, however, on which we must insist and that is that it would not be sufficient for the countries applying for admission merely to give their assent to some general objectives. They must accept the priorities, at both internal and international level, that have emerged from the progressive coordination within the Community.

The point has acquired additional importance following the results achieved by the Community at the international monetary negotiations that led to the amendment of the International Monetary Fund's regulations and the establishment of the special drawing rights system. It has acquired more importance still —Mr. Cousté is right about this—since last July's decisions by the Community's Council of Ministers regarding better harmonisation of the member states' medium-term economic policies, as well as more efficient co-ordination of their current policies, and the implementation by appropriate methods, of monetary co-operation within the Community.

This, in our view, would make it possible—and here I am replying to Mr. Boersma—to prevent, rather than cure, excessive imbalance between the EEC Members, besides being more likely to produce the necessary conditions for maintaining the stable exchange rates required not only for the common agricultural prices system but also, and chiefly, as a secure basis for business development inside the Common Market.

Their progress in this direction has brought its Members to the opening of a new stage in the Community's evolution involving the creation of a common monetary system. Acceptance of this target, and of the means of achieving it, by the states now applying for admission would contribute greatly towards the unity and dynamic character of an enlarged Community.

There are two problems—how to strengthen the Community and how to expand it—but they can both be solved simultaneously. As regards the first, the Community cannot stand still. If it did, the pressure of the disruptive forces already apparent would, paradoxically enough, lead to its disappearance just as it had achieved a customs union and just as improved techniques were enabling it to reap ever larger benefits from the existence of a vast common market. The Community must not stand still. It must consolidate and develop its achievements and their results, within the framework of the Community institutions.

All this means further essential progress being made in the social, agricultural, economic, technological and institutional sectors and, as I have already said, the Commission has presented a number of proposals to the Council with that in view. The action the Community has already taken must therefore be followed up and intensified, and it need hardly be added that its enlargement to take in the United Kingdom, Denmark, Ireland and Norway cannot be allowed to slow down that action. The only type of structure capable of providing a place for these candidates is that of a strong Community. It has been in that context, as Mr. Chapman very rightly says, that those countries have presented and, for over two years, maintained their application.

At the beginning of the negotiations, therefore, it will be advisable for the countries concerned to state, in full knowledge of the facts—of the action, that is to say, that has been decided or already taken—that they accept the principle that the Community must be strengthened; and it will be necessary, further, that they introduce policies similar to those followed by the Community itself to that end.

I have spoken of the beginning of the negotiations because the Commission is convinced that they should be begun as soon as possible. That is the conclusion reached in the report it has just sent to the Council of Ministers. The same document also suggests a plan and a number of principles designed to facilitate the examination, together with the applicant countries, of the problems raised by the enlargement of the Community, and hence to contribute towards finding a means of ensuring that an enlarged Community will possess the two essential qualities of cohesion and dynamism.

The Chairman (*I*). — Thank you, Mr. Martino.

The remainder of the debate is adjourned until tomorrow morning, Saturday 4 October, at 10 o'clock.

The Sitting is closed.

The Sitting was closed at 7.15 p.m.

SECOND SITTING

SATURDAY, 4 OCTOBER 1969

IN THE CHAIR : Mr. REVERDIN

President of the Consultative Assembly

The Sitting was opened at 10 a.m.

The Chairman (*F*). — The Sitting is open.

1. *Continuation of the exchange of views*

The Chairman (*F*). — The agenda calls for the continuation of the exchange of views between the members of the European Parliament and the members of the Consultative Assembly of the Council of Europe.

I call Mr. Vredeling.

Mr. Vredeling (*N*). — Mr. Chairman, if I may be allowed at this inspiring hour to make a few remarks on the subject before us, I should like to start by saying that the question whether it is essential for us in the Community or in Western Europe in general to collaborate more closely in monetary affairs, and to achieve closer monetary unity, is answered differently by different people. By that I mean that when the Ministers of Economic Affairs on the one hand and the Ministers of Finance on the other are faced with this question, they have a marked tendency to play hide-and-seek and to shelter behind each other's backs.

The argument of the Ministers of Economic Affairs is that we must first have monetary unity because otherwise it is impossible to conduct sound monetary policies.

The Minister of Finance, on the other hand, say that we cannot have monetary unity until economic policies have been integrated.

We have been gyrating inside this vicious circle for some considerable time now, and we can see the consequences. According to the textbook, it is practically certain that monetary unity—monetary union—is the keystone in the process of economic integration. To my mind, however, day-to-day political practice reveals a slightly different situation, and no doubt because economic policy, in a society based, like ours, on a free enterprise production system, is hardly an operational reality.

Of course every country, including the member states, applies an economic policy. But when all is said and done, it comes down to little more than a set of guidelines for commercial and industrial enterprise. Facilities are provided, regional policies are put into effect here and there and backward industries are stimulated. Individually, these measures are not highly operational, at least seen from a central standpoint.

Monetary policy, by contrast, is operational. Devaluation and revaluation clearly have an operational character. They are the subjects of one major decision. Credit policy, budgetary policy, and central banks all play operational roles in daily government. The part played by Ministers of Economic Affairs is different. In practical politics it is very probably necessary to start by taking that operational measure. The other measures, which are intended to stimulate the economy and are more a matter of co-operation with commerce and industry, cannot be taken until the operational measures in the monetary sphere have been applied. If simultaneity is dictated by monetary policy, the process which is set in motion has very far-reaching consequences. On the other hand, a parallel can be drawn with agricultural policy. This too, has proved to be an operational policy in the Community. By its means the Community should have set certain processes in motion, although in this it has not always been successful. Here again use has been made of an advanced sector because it was able to function operationally. Yet it should not have needed to occupy this leading position.

The whole process of operations of this kind which have to be carried out simultaneously—and I would emphasise this to avoid any possibility of misunderstanding—is certainly not acceptable if it is done inside the Community without the European Parliament's exercising any form of parliamentary control. I shall return to this point in a moment. As regards the simultaneity of the process, I should like to say the following.

To my mind, the question cannot properly be tackled before the central position which an internal parliamentary institution such as the European Parliament must occupy is clearly understood.

I should like to say a few words about the recent difficulties over the devaluation of the French franc and—for this is really the crux of the matter—the revaluation of the German mark. For this purpose I would refer you to an interesting article by Professor Mundell of Chicago University in *The Times* on Wednesday 1 October. Professor Mundell discusses this very subject. His thesis is that if there had been no revaluation or adjustment of the German mark, wages in West Germany would have had to rise by 10 to 15 per cent. According to him, therefore, the choice lay between revaluation and a wage rise of 10 to 15 per cent. There was no other alternative. Now as we know the German Government opted for revaluation. A measure of that kind of course greatly affects the position of the trade unions. The German trade unions are now in the position of being unable to formulate their wage demands in the same way. In this connection Professor Mundell makes the interesting suggestion that the trade unions might consider including exchange rate clauses in their collective agreements in order to arm themselves against such eventualities, against which they are otherwise quite powerless.

This strikes me as a highly interesting idea. We are familiar with collective labour agreements which provides for the adaptation of wage rates to price increases. But wage rates tied to exchange rates are something new. If the politicians allow monetary co-operation to go by default and fail to reach the unity we desire, then the trade unions will in turn have to resort to such a remedy, more or less for the sake of self-preservation. This presupposes a high degree of collaboration between trade union movements in the various member states. It also calls for a different kind of consultation between both sides of industry in the various countries of the Community. We shall have to work together more.

If I may, I should like to say a word in this connection about the position of the small countries, and I shall take the Netherlands as an exemple. The Netherlands are tied to an important degree to the German mark. Half of all Dutch exports to the EEC countries go to Germany. More than one third of the national income of the Netherlands is earned in West Germany. Although the process of inflation is at work in the Netherlands, it is not certain that revaluation will be necessary. In any event the revaluation of the German mark restricts the options of a Dutch incomes policy. These options in the Netherlands are limited, in connection with the export and similar factors, by the fact that the German trade union movement, the DGB, has not experienced the same wage rises as have taken place in other member states; this is a very interesting point in view of Professor Mundell's hypothesis. In fact, the DGB in Germany determines the wages policies of small countries like the Netherlands. The same applies to Belgium. This dependence upon each other is already a fact. The proposition that we first need a common economic and social policy before we can arrive at a monetary policy is really an illusory argument, because the absence of a common monetary policy already in fact largely determines the economic and social policies of the various states. In my opinion therefore it is high time that the monetary authorities took action. As a result of the absence of a Community monetary policy, a number of states will be forced to align themselves with the exchange rate of the German mark. Other countries will need to align more closely with the dollar rate. It is a remarkable thing that the trial of strength which threatens to take place in EEC between the French franc and the American dollar has become essentially a struggle between the German mark and the American dollar. As the saying has it, you never can tell.

I turn now to Mr. Hougardy's report, where in paragraph 15 a number of important things are said which have been said in previous European Parliament reports. Mr. Hougardy tackles a highly important question in that paragraph when he says that the interests which are so mutually contradictory

> "will be regarded as national as long as nation states form the framework and the foundation of politics, and as long as there is no possibility of considering them in the context of the Community, for want of communication at that level between public opinion in the different member states or even between the various parties, trade unions or professional organisations."

This is a highly important statement and, I feel, quite correct. We in the Community lack the process of integration of the political forces which are generally present in our member states in the form of political parties. We are sorely in need of that process. As everyone knows, the trade union movement has set the ball rolling, but the political parties have so far lagged a long way behind.

Mr. Hougardy says in his report that there must necessarily be a struggle for power between the political forces. He means, of course, political power and not power in the conventional sense of the word. He says that political power is a reflection of interests.

He further points out that as a minimum condition, a start must at length be made on democratisation—the participation of political groups and economic and social organisations in the determination of common economic and monetary objectives. To establish such a programme, there must be a primary obligation to consult the European Parliament and possibly also the Economic and Social Committee.

On the question what form this process should eventually take, he says that the political parties will have to be organised on a European scale within the foreseeable future. He then argues—and here I cannot help but hesitate a little—that governments might lend a helping hand by exerting some gentle pressure. I hesitate here somewhat because governments themselves are the expression of particular political leanings. So if they themselves were to lend a helping hand I am not sure whether this would be done in a way that could be called objective. This is a point intrinsically worthy of discussion and consideration because so far no progress whatever has been made towards the integration of the political forces in the Community. The consequences of this are many and varied.

Mr. Hougardy has pointed out, for example, that progress towards a common monetary and economic policy is inextricable from, and dependent on, the requirements and possibilities of a common foreign policy. This is true; but the converse also applies. As a result of the fact that they have no common views on foreign policy, the member states are extremely hesitant to pool their economic and monetary policies. These things go very deep. And so I feel that the Rapporteur has hit the nail on the head: the important point is the lack of integration of the political forces inside the Community.

This is all the more significant because the failure to move towards integration of political forces reveals in an even clearer light the integration of the major economic forces in our society.

For these forces are pushing ahead with integration. Ever greater concentrations of economic power are a reality. Amalgamations of large concerns across international frontiers are the order of the day. The leeway in the political integration process gives rise to enormous problems, notably for the future of democracy in the Community.

Some highly interesting data have been compiled by Mr. Charles Levinson, Secretary General of the International Federation of Chemical and General Workers' Unions. I found them in the *Guardian* of 3 September last.

In a study on this question of the build-up of economic power, this international federation has shown that 35 per cent of the gross national product of the Western world, excluding the United States—i.e. broadly speaking, Europe and Japan—is produced by United States companies and affiliated subsidiaries. A revealing figure indeed.

This is also to some extent reflected in the Bulletin of the European Communities entitled *Research and Technology* of 16 September last, in which it is stated that one sixth of all European production in the electronics field is in the hands of subsidiaries of American companies.

My reference to these facts must not be taken as a sign of anti-American sentiment. That is by no means my intention. Yet it is worth pointing out that this process of concentration of economic power, with the merging of large concerns, is covered by federal anti-trust legislation in the United States. We in the Communities have, it is true, begun to tackle this problem by regulations on competition, but not, I think, in a sufficiently effective way.

Generally speaking then, we lack the concerted policy which is a fact of life in the United States. Nonetheless, perhaps for that very reason, the process of economic integration between large concerns is taking on gigantic proportions and leaving us in a kind of uncontrolled situation which has never really existed before except in the 19th century, and which is now far more dangerous because of the significantly greater scale on which it is taking place.

It is my opinion that if the politicians are conscious of their responsibility—and I am thinking of the party politicians in our various countries—they must surely learn something from this situation.

I need hardly tell you that a recent statement by the British Foreign Secretary on this point pleased me greatly.

In a speech in Brighton this week, he made the following highly significant declaration:

> "We fully support our friends in the Community who wish to see more democratic control by the European Parliament of activities covered by the Treaty. We do not believe that in this process Britain will be swamped and submerged; we have greater faith in the political genius of our people than that. We believe that if Britain has much to gain from membership she has also very much to give."

Mr. Chairman, I believe that to be true and that we on the continent must agree that Britain has much to gain from membership but also a great deal to give.

This point is especially relevant in connection with the process of democratisation and the need to provide a counterweight to the economic forces arising on the continent, since this process will be accelerated if Britain becomes a Member of the Community.

I wish to say how particularly glad I am to hear the British Foreign Secretary, even before England becomes a Member of the Community, giving evidence of his solidarity with those in our Community who in fact want to see the European Parliament playing a greater part.

I believe that British membership of the European Economic Community will mean a great stimulus for the European Parliament. *(Applause.)*

The Chairman (*F*). — I call Mr. Ohlin.

Mr. Ohlin. — I must begin by complementing the Rapporteurs on their excellent reports. Mr. Hougardy gives more than he promises, as he discusses not only problems in the short and medium run but some very interesting long-term questions.

I shall confine myself to two points. First, there are considerable advantages in a limited flexibility of the foreign exchange rates instead of the present system of, on the whole, fixed parities. When we discuss future monetary reform, the possibility of building on a greater flexibility should not be excluded.

Mr. Petersen, in his excellent and useful report, mentions the system of a "crawling peg". By this I mean a system of the following type: the par value of a currency can be modified step by step, but with a certain total maximum—such as 2 per cent—in the course of a 12-month period. One can maintain the normal margin for fluctuations of plus or minus three-quarters of one per cent which we have at present, or a little more. These figures are chiefly used as an illustration.

It is easy to see that speculators will not be able to profit as much, if we have such a system, as they do now, when a devaluation of 5, 10 or 20 per cent offers great chances of profits. The foreign exchange market in future deliveries makes it possible for importers and exporters to find insurance against losses caused by these limited variations in the exchange rates.

Secondly, if we are to avoid monetary crises like the many we have had since the war and escape from very large foreign exchange variations, then a very uneven development of cost of production levels must be avoided. Average costs per unit, not wage rates, are what determine the conditions of competition, as productivity may vary. But as productivity rises only slowly, variations in the wage rates are, of course, very important. If wage rates should rise about 10 per cent per annum in one country and 3 per cent per annum in another, and there is a fixed parity for the exchanges, then a disequilibrium is bound to ensue. Balances-of-payments will get out of order, and in due time—or perhaps one should say much later than would be due time—we have a devaluation.

The external value of a currency has a fairly close relation to its internal value, and if we disregard that we shall never create a monetary system that will function well. However, the policy of governments cannot guarantee a parallel development of costs in different countries. It is not a question of equal wage rates. Both nominal and real wages are higher in countries where productivity is high. This is a condition of natural competition and equilibrium. The problem is that the variations in costs per unit of output cannot be widely different year after year if fixed, or almost fixed, foreign exchange rates are to be maintained. If we try to keep the exchange rates fixed nevertheless, then we are sure to have balance-of-payments crises, import restrictions, import taxes and unemployment.

This influence of different developments in the costs of production in different countries is well known. The problem is seldom taken up for serious debate when we discuss monetary reform in international gatherings. But unless we solve this problem of cost developments to a considerable extent the only means of avoiding serious monetary crises will be a more flexible foreign exchange rate—more flexible than most of us really desire. But if we solve the problem, the real earnings of the workers and all other groups in the population will be higher, because conditions for production and trade will be more favourable.

I offer no solution of the problem of how we are to avoid wide discrepancies in the developments of cost levels. I only suggest that the freedom of the labour market, the freedom of action of trade unions and employer's organisations, is considered so important in most Western European countries, as it is my own, that a natural method to be tried is a voluntary co-ordination of certain aspects of wage policy. It will take time to gain an understanding of this point of view. But in the realm of the International Labour Office many things have been discussed in the past few years which were considered much too delicate before the war.

If you answer that at present there is no chance of solving this problem of limiting discrepancies in the development of cost levels, then my answer is twofold. It is possible that we cannot do much now, but we must try, and we must at least begin with a discussion of this problem, for it is important. Secondly, if we cannot solve the problem of cost levels we must have considerable flexibility in the foreign exchange rates as a useful reform of our monetary system. It must be made in such a way that the conditions of trade are as favourable as possible and the risks of a damaging international speculation are as small as possible.

Unless we solve problems like these—let us call them medium-term monetary problems—there will be very serious setbacks also in the solution of long-term problems, and setbacks in the whole work for Western European integration.

The Chairman (*F*). — I call Mr. Oele.

Mr. Oele (*N*). — Mr. Chairman, I must resist the temptation to speak at length about the most topical problem in the Community, namely how the current disruptive monetary developments, can be prevented from escalating as they threaten to do, before it is too late. Quite clearly, a floating exchange rate for the foremost currency in the Community has shaken the foundations of economic collaboration. It is up to the competent EEC bodies —the Court of Justice which will discuss this question on Sunday, and the European Commission which will deal with it on Monday—to halt this development before it is too late. As is always the case in politics, a choice will have to be made between two evils. On the one hand, it is important to prevent further speculation and speculative movements—and not only in the French franc and German mark. On the other hand, an attempt must be made to keep the way open for continued and closer economic and political collaboration. These goals are not easily reconcilable; the outcome will have to be a compromise. I cannot say a great deal about this. It is a matter which is of prime concern to the European Parliament. But I should like to make one remark, and I think that in doing so I speak on behalf of a very large part of the Socialist Group in the European Parliament.

It is that floating exchange rates—this can be proved theoretically—are disastrous for economic collaboration of any kind and consequently for economic collaboration inside the Community. Only a somewhat wider margin of permitted variations in exchange rates inside the Community appears to us to be acceptable, and then only as a temporary solution for a transitional period in which new and further-reaching objectives for economic policy collaboration are determined and agreed upon.

I know that these objectives have already been discussed and that certain proposals of a general nature have been made in the Barre Plan. Agreement has been reached, but at a time when it was not yet possible to give concrete form to these proposals; and thereupon the monetary crisis escalated further still. I think it will be seen in the weeks and months ahead whether that agreement in principle, achieved last July, is capable of turning this particularly dangerous tide. Our experience since last July scarcely leaves us in an optimistic frame of mind at this time. It will require a vast amount of political courage, particularly on the part of the European Commission—perhaps even more courage than has been called for to date—to end this unfortunate course of events. I wish the Commission every success. But I am anxious to say this now because next week it may be too late.

Much emphasis been laid on the need for national monetary self-discipline. The point is mentioned in the main conclusion of Mr. Petersen, Rapporteur for the Council of Europe on the monetary situation. I must say that the analysis he has given is extremely sound and interesting. And I should be quite happy with his conclusion were it not for the fact that, though it may give all kinds of facts to support it, in my opinion it takes too little account of the rapid changes that are taking place inside the Community. I think Mr. Petersen's view is too static and takes too little account of what is happening in monetary and economic co-operation. It is, after all, a fluid situation.

The Rapporteur states that given national self-discipline, appropriate machinery for monetary co-operation will not raise many problems. I should like to know from Mr. Petersen whether he does not think that, once such an apparatus for monetary co-operation has been created, then this very fact of monetary co-operation, together with existing economic co-operation, generates impulses which have consequences for the balance-of-payments positions and monetary situation in the member states and in states participating in that monetary co-operation and related economic co-operation.

The truth is that, precisely because this is a changing situation, small states may fall into extra-monetary difficulties as a result of once having accepted a particular procedure for economic co-operation. I could give examples to illustrate this, but time is too short. But the fact is that whenever a country gets into difficulties and is tied to a particular form of economic co-operation, then in certain circumstances this can lead to trouble for another state's balance-of-payments—trouble maybe in the opposite direction and maybe not. The process here is one involving common responsibility and it is therefore not enough to say that national self-discipline is required.

What is required, indeed, is interaction, and if states embark on economic and political co-operation, they must also be willing to adopt an attitude of solidarity and take a common share in the consequences.

That is the position in which the European Economic Community finds itself at the present time. I think it is very important for this to be understood from a broader viewpoint.

Mr. Chairman, that was by way of a theoretical comment. To conclude, I should like to make an observation which is rather less theoretical and relates to the conclusions of Mr. Hougardy's report. It is an outstanding report which gives a particularly admirable analysis and a number of very general conclusion to which I willingly subscribe. The third conclusion strikes me as particularly apt.

At the end of the report, where this conclusion is discussed, a parallel is drawn between the creation of a common economic policy and that of a common monetary policy.

The Rapporteur says simply—and theoretically he is right—

that monetary policy cannot stand alone, can never be used to exert pressure for further integration; rather must it be preceded, carried along as it were, by joint medium-term economic objectives. We also find this in the Barre Plan which I mentioned a moment ago. In particular, member states must co-ordinate their action in the field of prices, incomes, employment, budgetary policy and fiscal policy; these must then be formulated as common economic objectives and adhered to.

As you know, the Barre Plan speaks only of consultation in these matters. Nothing concrete is proposed as yet. Agreement must first be reached in these fields; only then can monetary co-operation start to work. This is a small step in the right direction, but it is no more than that.

Now I have been wondering—and this is a very fundamental and also a political problem: if that is in fact so, and it is so, because everyone here has argued that monetary policy, unlike the removal of trade barriers, cannot be used as a lever to promote integration—what is there that could serve in the next phase as a new instrument, a new outboard motor, as it were, for the further integration of Europe? Must it be the unification of social and political objectives? Since we cannot do everything at once, must this be the new propeller, as it were, to drive the Community forward?

I think I speak for my friend and colleague Mr. Vredeling and many people who are concerned for democracy, and also for my predecessor Mr. Ohlin, who spoke of the need for clear co-ordination in the field of wages and incomes policy, when I say that we are pulling the wool over our own eyes if we think we can achieve further integration simply by the joint formulation of incomes-policy objectives.

There is a natural law at work here which suggests an analogy with Liebig's law in agriculture: in the growth of a plant or any living organism, the growth rate is determined by the factor with the lowest value.

If we compare all the factors, then I am sure we shall find that it is not the willingness to combine and merge social and political objectives in themselves that has that lowest value. The limiting factor is the possibility of organisation at European level in accordance with a democratic procedure such that the peoples of the member states do not lose sight of their own interests in the process. As for the need for further integration and the requisite political will, there is not so much a shortage of theoretical insight into the possibilities of co-ordinating social and political objectives, as a shortage of the means of doing so in a democratic and acceptable manner, being fair to the different interests, evaluating them correctly and enabling them to express themselves through the acquisition of political power. And so I come to the main point, which Mr. Vredeling also discussed. It is also implicit in Mr. Ohlin's argument, when he says that we simply must try to give the European Parliament, the European trade union movement and the European social organisations greater opportunities to express themselves at European level on incomes-policy objectives. If we fail to do that, then we may as well forget the rest. What is at issue above all is the strengthening of European democracy and the strengthening of the powers of the European Parliament and the European trade union movement, the aim being to arrive at an incomes policy which the latter can implement and sell to its members both within states and across their frontiers. No amount of theorising can be a substitute for that. *(Applause.)*

The Chairman (*F*). — I call Mr. Coe.

Mr. Coe. — I welcome this opportunity of intervening briefly. At this Joint Meeting it is appropriate to discuss monetary policy, which is highly topical and very important. The debate has ranged from qualified pessimism to qualified optimism from my friend and colleague Mr. Chapman. He is by nature an optimist but, judging from my knowledge of him, when he is optimistic he is usually right. Yesterday he gave the meeting a great number of reasons giving rise to his qualified optimism.

We in Britain feel strongly about monetary policy. We have lived with this problem since the end of the war, and we have good reason to agree with the point made by Mr. Petersen in his report that confidence is such an important factor in having a stable monetary policy. It depends above all on an understanding of the strength and weaknesses of individual economic policies in different countries. This is particularly so in relation to a country like the United Kingdom which has a reserve currency.

It is inevitable that Mr. Hougardy's report dealing with monetary policy and the other two reports before us should have given a considerable amount of attention to the UK position. Since Mr. Hougardy's report was published there has been a great deal of encouraging news about the UK balance-of-payments, instead of the situation getting worse as the report was inclined to suggest. This week the British Chancellor of the Exchequer, both at the International Monetary Fund and at the Labour Party Conference, has pointed out that Britain is on the way to a surplus of £450 million. This excellent result has been achieved by following some of the suggestions which Mr. Hougardy included in his report. In particular, he mentioned the need for improved competitiveness of British industry. The 8.5 per cent improvement in industrial productivity since devaluation, the changes in industry taking place through regional policies are all in line with the very points he made in his report.

Secondly, Mr. Hougardy suggested the need for cuts in defence expenditure. From the long-term estimates of five years ago, about £2,000 million has been lopped. We in Britain now spend more on social security and education than on defence.

I make these points to underline the fact that this economic improvement gives point to Britain's application to join EEC and emphasises the important role she can play in the future economic strength of Europe. I was glad to hear Mr. Vredeling this morning drawing attention to the important speech by the British Foreign Secretary this week at Brighton. I believe this adds up to stability in monetary policy.

I believe that Mr. Hougardy was rather too pessimistic in his report in one aspect. He was right to point to the many weaknesses in the Western world's economic and monetary systems, but he might have made some mention of the fact that such actions as the introduction of the two-tier gold market, the Basle arrangements for the support of sterling and the agreements in principle for supplementary drawing rights suggest definite improvements, and I am glad that Mr. Petersen pointed out in his report that as a result of these improvements, provided the central banks keep their nerve, short-term speculators are bound to be defeated.

Finally, I am glad that both Mr. Petersen and Mr. Federspiel pointed out that the measure of success with which governments can tackle the economic and monetary problems depends on how far their measures can be "sold" to their parliament and people; and as politicians we must always have this right at the front of our minds in talking about monetary policy. I am not a practising economist, but I recognise the problems facing international monetary institutions and above all I plead that we do not talk ourselves into a monetary crisis. I believe, as Mr. Chapman said yesterday, that we are in for a period of continuous search for greater monetary co-operation within the more stable atmosphere which, I believe, now exists. Therefore, I welcome this debate and these three reports as contributions to the search for the best possible solution to these important problems.

The Chairman (*F*). — I call Mr. Bertoli.

Mr. Bertoli (*I*). — Mr. Chairman, Ladies and Gentlemen, we are discussing European co-operation in the monetary field at a time of international crisis whose most obvious and urgent aspects are the monetary ones: first the official devaluation of sterling and then that of the franc; Federal Germany's decision to abandon the parity of the mark; pressure from some powers for the revaluation of certain currencies, including the Italian lira and the mark, which is being exerted at present in Washington at the meetings of the International Monetary Fund; spiralling interest rates; movements of enormous amounts of capital, sometimes away from countries which, like my own, need to make the fullest use of their own resources; general inflationary trends in spite of the adoption of deflationary measures in various countries, particularly in the United States, the United Kingdom, France and Germany.

These facts are interconnected, and together they represent the monetary aspect of a situation which has its roots in the economy of the various countries, in their machinery for development, in their economic policies and indeed in their general domestic and foreign policies.

I therefore agree with the comment in Mr. Hougardy's report that

> "by their very nature, these problems have political causes and effects",

if, as seems to me possible, the adjective "political" can be extended to include also economic policy.

However, if we wish to find the reasons for the continually increasing difficulties of the world economic system, we must start from the notion that there is in the world today a contradiction between the hegemony of the United States over all the countries of the non-communist world and the requirements of the economic, social and civil development of these countries. This hegemony is apparent in the economic, political and military fields as well as in the monetary field. I include the monetary field inasmuch as the dollar, being now the single key currency for the international monetary system, is one of the important instruments by which this hegemony is extended and strengthened.

I think perhaps we can interpret thus the phrase in Mr. Hougardy's report which suggests that the main cause of the dollar's weakness is the world role which the United States feels obliged to play. Naturally, within this relationship of hegemony is also a whole range of dialectics: differentiations, varying strength ratios, community and conflicts of interests. All of this is not static but dynamic, and therefore its quality changes as time goes by.

The historical explanation of the hegemony of the dollar in the international monetary system can be found if we consider post-war conditions. American productive machinery had remained intact and indeed had been considerably strengthened by the enormous war effort, while the European nations suffered almost complete destruction of their productive machinery. The demands of reconstruction in the European countries resulted in large-scale imports from the United States of America; hence the shortage of dollars and the improvement in the balance-of-payments in the United States, which found its reserves increasing until they amounted to three quarters of the total available world gold currency and half of the gold and currency reserves of the whole world.

This was the situation at Bretton Woods twenty-five years ago. Subsequently the European countries, continuing their reconstruction, became increasingly independent of American export; but, as a result of the cold war, the war in Korea, and the continuing war in Vietnam, with the consequent tremendous military expenditure abroad, as well as of investments in Europe, which increased alarmingly (for example, they rose from $2 milliard in 1952 to $15.5 milliard in 1965), and finally of the aid given, on political terms, to under-developed countries, the American balance-of-payments, although its trade component remained favourable, became more and more unsatisfactory: reserves diminished considerably, and the world was flooded with dollars, in the reserves of the countries that had a surplus and in the possession of non-residents. These are the so-called Eurodollars.

With a monetary system based essentially on the dollar, the United States of America, unlike any other state, was for years, from 1958 up to the present day—and there still is a surplus—able to support the decline in the balance-of-payments without feeling any adverse effects; indeed, it reaped a certain advantage from the point of view of its own expansion policy because this was partly financed by the credit which the rest of the world, particularly the European countries, extended to America to balance their dollar and Eurodollar reserves.

But this credit, Ladies and Gentlemen, is for an indefinite period, or rather its date of expiry is linked with the survival of the dollar as a key currency in the monetary system.

Increasing realisation of this fact throughout the world, realisation that the present monetary system enables the United States to finance its own development and extend its own hegemony by making use of the actual resources of other countries, is leading to a crisis in the international monetary system.

It seems to me that, apart from any judgment on the motives that inspired its policy and on many aspects of its political activities, and apart from any judgment on the solutions proposed, France should be given the credit for being the first Western European nation to take action to remedy this situation. It seems to me indeed that this action reveals an awareness of the existence of a direct link between monetary facts and political and economic facts. In fact, France did not content itself with trying to convert its own dollar reserves into gold, but dissociated itself to some extent from NATO and then—I am not sure whether it would do the same today—stipulated as an essential pre-condition for the renewal of the international monetary system, the restoration of the American balance-of-payments.

To escape from the present crisis it is necessary to take action to free our countries from the American hegemony. We must therefore practise an economic policy which will affect all the sectors of the life of our countries: first of all a policy for peace, where immediate action must consist in reviewing the position of our various countries in NATO and in recognising certain countries, such as China and Vietnam; an economic and social development policy which will cover schools, scientific research, technology, the development of social assets, the home, health and town-planning; the devlopment of internal demand; recovery from the sectoral and territorial imbalances in our countries; reform and decentralisation of the state; democratic participation in authority and, therefore, democratic planning.

I shall not go into all these points. It seems to me that if we are to solve the monetary problems it is essential for control of liquidity to be in the hands of a collective supranational organisation that would be free from the supremacy of the United States and of groups of stronger countries such as the Group of Ten.

It seems to me that the institution of special drawing rights, at present being discussed at Washington, would not be a move in this direction, because special drawing rights would form a part of the present system of so-called normal multilateral credits, that is to say normal drawing rights, stand-by credits, swaps and the general loan agreements of 1962; and also because special drawing rights would be allocated according to percentage contributions to the Fund, so that, for example, in the first year of allocation, out of $3.5 thousand million of special drawing rights $900 million would go to the United States, $400 million to Great Britain and only $160 million to all the African countries and $325 million to Latin America. Finally, too, because drawing rights would be administered by a body which, even with the change in the majority from 80 per cent to 85 per cent of the necessary quorum, would still be dominated by the United States system of alliances.

Recent history seems to me to have provided an ironic comment on some of the proposals in Mr. Hougardy's report (this is nearly all I have to say); for example the proposal that a fixed exchange rate should be accepted by the Community as a first step towards a European currency, coming just when the Federal Republic of Germany was allowing the mark to float.

Others, however, which draw attention to the links between the foreign policies of member states, their economic policies and monetary problems, may be regarded as a positive basis for further exploration.

Still other proposals of Mr. Hougardy's report, such as the suggestion that the political organisations must be given a part in the decisions regarding the lines of economic and monetary policy, might have immediate consequences, such as, for example, participation in the European Parliament of political forces of the left which are not yet represented, and recognition of the right of Italian left-wing parliamentarians sitting there to form a group.

While Mr. Hougardy's report deserves special credit for the intelligent effort that has been made to define the causes of and possible remedies for the present crisis of the monetary system, it seems to me that its general trend is not entirely centred on the problem we regard as fundamental: that is to say, how we are to overcome the contradiction between United States hegemony in the monetary field and the need for the democratic and peaceful development of all our countries.

For that reason, Ladies and Gentlemen, we feel that we cannot vote in support of Mr. Hougardy's report.

The Chairman (*F*). — I call Mr. Schulz.

Mr. Schulz (*G*). — Mr. Chairman, Ladies and Gentlemen, for many years now the annual Joint Meeting of the European Parliament and the Consultative Assembly of the Council of Europe in this Chamber has provided an opportunity to debate the regrettable halt in the process of European unification, and particularly in the development of the European Community.

This time it is not just a halt but a serious step backwards. The effects of the French devaluation and the floating of the Deutsche Mark have shaken the structure of the agricultural Common Market and largely brought progress towards integration to a standstill. I hope it will not be taken as an expression of the prejudice of a member of the German delegation to the Consultative Assembly when I emphasise the pointlessness of trying to apportion blame in this unhappy process. It is often said, not least in politics, that events make the rules. I believe that here the reverse has occurred. In this instance, non-events have played a great part. In recent days we have all been confronted with the fact that there has not yet been sufficient concrete progress towards European unity to withstand disintegratory factors, because circumstances have proved stronger than any amount of goodwill.

But it is not only this example which must give us pause for thought; we must also register, partly in parallel with the events of the recent weeks and months, a certain unmistakeable falling-back on national positions in the member states of the European

Community and of the Consultative Assembly. I never could understand the rather facile optimism of those who spoke in 1969 of a "European Spring". On the contrary, it seems to me that the erroneous conception is gaining ground that even seriously intended economic integration must exclusively benefit the participating nation-states, if not the selfish interests of the respective countries. Political experiments, especially those of a supranational nature, are to be avoided.

I have no need to explain before this gathering, at least for the overwhelming majority, how wrong this attitude is. All of us here know that the interests of the citizens of our countries, though not the interests of our countries' bureaucracies, would be best served by the creation of the most tightly-knit Community possible, which sets itself political aims which go beyond the economic field.

And yet the opposite view—let me emphasise it once again—which wants to use the factors of economic integration predominantly to the benefit of existing nation-states on the basis of unrestricted sovereignty, is currently widespread. That was at least the view taken by France while de Gaulle was in office, and there has as yet been no indication of any radical change in this attitude.

I frankly admit, Mr. Chairman, that, as a European, I am also uneasy about the signs of what is happening in Great Britain. The proceedings of the last Labour Party Congress and a number of utterances by leading politicians and statesmen show the way things are going. There are a number of psychological reasons for the fact that, in Great Britain, too—if I may put it this way—the supranational tide has turned.

These retrogressive trends should be seriously considered at the forthcoming Summit Conference of the Six in November. In my view, they should be its main theme. I hope you, in particular, Mr. Chairman, will forgive me for transposing a well-known dictum into what is no doubt very bad Latin. I hope you will all none the less understand what I mean: *Videant consules*—

this should be the motto of our Summit Conference—*ne maius detrimenti communitas capiat*! I think it really will be a matter of making serious joint efforts to maintain and consolidate what we have already achieved and to preserve it from falling back still further.

For all that, I believe we may indulge in a little modest optimism. We should express that optimism here, if only, unfortunately, in a merely consultative capacity and not yet as legislators in European policy, and address it to those whom it concerns, especially the Council of Ministers of the Six.

As I see it, this relapse can be remedied, this misfortune turned to advantage, this necessity made a virtue, if the right conclusions are drawn from the recent upheavals.

The partial integration of agriculture in the European Community—I do not wish to go into greater detail here on the conflicting interests which existed in the late fifties and early sixties—has, in my view, proved to have been a matter of putting the proverbial cart before the horse. But even without the recent crises it would inevitably soon have been subjected to serious strain.

Through integration in this sphere, we have built up an agricultural market which was primarily a producer's market and did not serve the consumer. We have built up a fund which has grown to DM10,000 million and over which there is as yet not the slightest parliamentary control, or at least no effective control. These are in themselves two great public nuisances, even without the monetary upheavals which we have recently witnessed. The only conclusion which can be drawn, as I see it, is that we must resolutely declare the fourth, fifth or sixth act of integration, which has until now been postponed because of reservations and existing circumstances, as the first act and start afresh with a true harmonisation of economic, cyclical and monetary policy.

Even then, harmonisation and unification of the various policies in the energy field, a new and more appropriate agricultural policy, harmonisation of social and fiscal policy will not in future be achieved automatically, but we shall have a firm foundation, a specific geometrical pattern on which to build them, in contrast to the present situation, in which this partial integration of the agricultural market has been projected as it were into a vacuum, where the individual institutions hovered in a strange sort of weightless condition, until such time as the force of gravity loomed up on the horizon, threatening to precipitate them into the void.

I believe we should here formulate a further conclusion to be addressed to the planned Summit Conference. The Community of the Six—as the year 1969 with its various strains has quite clearly shown—is by no means so perfect, so fine, sa harmoniously organised as General de Gaulle in his day, for example, would have had it appear, giving that as the decisive reason for reacting sceptically towards other candidates' applications for entry. After the internal contortions, difficulties and upheavals that we have experienced in the Community, the Members of this Community should enter into the membership negotiations with the four candidates—which it is to be hoped will soon take place—with more modesty and should declare from the outset as the most important common aim a joint effort with the four candidates, even during the transitional period, to make topic No. 1 their prime consideration: the harmonisation of economic, cyclical and tax policy.

Then there will be the possibility not only of the present member states and the four candidates moving closer together, but also of the same possibilities arising, with a similar membership, in WEU.

I do not wish to pursue this subject further today, important and interesting though it no doubt is. I should merely like to point out what a multitude of urgent tasks for the future lie before us in Western Europe.

Let me close with a deliberate political comment. Over the last few days, at the recent session of the Consultative Assembly of the Council of Europe, we have concerned ourselves here, in this Chamber, with the much discussed European Security Conference. I myself am far from being opposed to such an event. On the contrary, I welcome this move towards an initial exchange of views, which will no doubt be serious and frank, but will, to begin with, I am firmly convinced, reveal nothing but the continuing divergence of attitudes. What I cannot understand is why this planned event is labelled a "Security Conference". For there will be no security in Western Europe, and still less in Eastern Europe, as long as the Brezhnev doctrine exists and as long as Communism continues to claim to be the only road to happiness.

Any amount of intelligence and any amount of goodwill could not change anything in the short term, given the present state of tension.

On our side, in the free countries of Europe, a maximum of political intelligence certainly exists, but unfortunately, in the sixties, it has not found expression in progressive action, but has largely exhausted itself in conservative excuses. What goodwill there has been has shown itself primarily in our unfortunately still powerless parliamentary assemblies and not where concrete decisions should have been taken.

For the future, however, goodwill, even if we mobilise it anew and as an urgent priority, will not alone be sufficient for a reinforcement of parliamentary rights and supervisory authority, but we shall have to concern ourselves much more intensively with scientific forecasting, which until now—if I am not mistaken—has been rather neglected in the European institutions. For goodwill can only lead us to the paths we wish to tread; it can only reveal to us the functions which must be brought together for the unification of Europe; but it can give us no indication of how future machinery actually *can* function. We should therefore draw much more than we have in the past on science.

All that will naturally take some time. For those of us who wish to press on, there is only one watchword. We too—if I may put it this way—must wait patiently if reluctantly and not lose our nerve; and we must preserve the toughness we have mustered in the dark and gloomy days we shared between 1963 and 1969.

For all my sceptical attitude to the present, I am an optimist with regard to future prospects and I shall remain one—indeed, I must. There would be plenty of time for pessimism if we had still not achieved a federated Europe by the year 2000. But we have not yet reached that point and so let me offer you another paradox: the idealists of today, who are not prepared to sacrifice their great vision of the future and are often scoffed at by the all too down-to-earth "realists" of today because of their allegedly utopian attitude, will, I am firmly convinced, be the realists of tomorrow and the builders of Europe. *(Applause.)*

The Chairman (*F*). — I call Mr. Cifarelli.

Mr. Cifarelli (*I*). — Mr. Chairman, Ladies and Gentlemen, this Joint Meeting of the Consultative Assembly of the Council of Europe and the European Parliament was called on to discuss monetary policy, which indicates that certain dramatic changes in the currency situation of European countries which have taken place recently have not taken us by surprise, inasmuch as, owing particularly to the Commission of the Communities, practical discussions has started and practical measures had been planned to cope with pressing monetary problems.

Nonetheless today's meeting takes place against a dramatic background, created by the measure for the revaluation of the mark and particularly by the tension that has arisen between the Commission of the Communities and the Government of the Federal Republic of Germany even during this admittedly transitional phase in which that Federal Government is simply disposing of everyday administrative matters pending the appointment of the new government.

I have no hesitation in describing what has just taken place as the moment of truth. Without any destructive pessimism or blind optimism, we must realise that this moment of truth was anticipated by those who, not only with an ideal before them—determination to construct a united Europe—but also with a persistent foresight as to measures to be taken, have always stressed the need for a European monetary policy closely related to a European capital policy, to a European economic programme (both short and long-term) and to a general economic policy.

I would remind you here of the important conclusions of the Action Committee for the United States of Europe under the chairmanship of Jean Monnet in which so great a part of the Triffin Report was incorporated. I have already mentioned the Commission's activities: I should like to stress what was said yesterday by Mr. Rey when he reminded us how the Barre Plan had been adopted. That plan, in spite of some criticisms in the Hougardy Report, is valuable in my view particularly because of the close adherence to reality of the measures proposed therein, which are not attempting to do too much but strive to do what is absolutely essential.

Yesterday afternoon Mr. Chapman in a remarkable speech said substantially that although the monetary upheavals in two of the great states of the Community, France and the Federal Republic of Germany, were most important, what had happened to the franc and the mark, with the devaluation of the former and the revaluation of the latter, had removed two serious unknown factors constituted by the absurdity of a difference between the actual and the theoretical values of both currencies. Refusal to devalue the franc was costing a tremendous amount and was in contradiction to the true state of affairs. Refusal to revalue the mark was equally unrealistic.

The return to reality was undoubtedly a positive step. It must be considered dispassionately, and from that point of view I am in agreement with Mr. Chapman's remarks and with those made by Mr. Hougardy in his report, and by other members of this Assembly who have pointed out how measures for the recovery of the pound sterling by means of the curtailment of public expenditure and encouragement for the British export drive were creating a more favourable monetary situation for Great Britain.

What we in this Assembly must however regard as negative is the way in which the measures for the franc and for the mark were adopted, not merely without consulting the Communities but even, I might say, in contradiction to them; this contradiction, particularly in the case of the mark, has not yet been solved and gives us all grounds for concern regarding relations between individual states and the Community organisations. This is an extremely important point, which must be stressed, since the true way to European integration lies through respect for institutions, use of the Community machinery, patient toil to adapt to reality the existing agreements, the institutions that are already in operation and policies that have already been planned.

I consider that the measures adopted both by France and by Germany reflect a great and dangerous illusion.

I have read a catchword referring to French policy: "With the disappearance of de Gaulle, a pretext has been lost." This is as much as to say that certain refusals at the highest level provided a convenient alibi; now that the situation has changed, not only must different directives be given but we must review the European objectives that are actually being pursued.

This is true not only for France but for my own country, Italy, and for the other countries of the European Community. I wish to stress how important it is from this point of view to realise that either negative or positive situations may induce illusions.

When a currency is in difficulties, as has happened with the French franc, one may delude oneself into thinking that dangers can be overcome and harm avoided by merely national measures. Similarly, in a situation like that of the Federal Republic of Germany, where undoubtedly there is an economic boom and a strong currency (some people might think too strong), one may delude oneself into thinking that the problems can be solved solely on a national level.

If today we can enter something on the credit side in this dispute, we owe it to the Commission of the Communities which

—as we were told yesterday—has finally adopted the provision necessary to open negotiations with Britain and the other three countries that have applied for membership. This undoubtedly is a positive fact. We hope—we shall do all we can to persuade public opinion in this direction—that as soon as possible, with the summit meeting at The Hague, the political bases for our Community action will be adequately reconsidered, both as regards reactivation of Community policy and in terms of the expansion of the Communities.

We have just heard an interesting speech by Mr. Bertoli, of the European Parliament. While I do not wish to enter into any argument, I must say that I disagree with many of his remarks; I shall be able to discuss these with him at some other time elsewhere. However, there is one positive factor in his speech: he related the vicissitudes of the European currencies to those of the dollar, and drew the conclusion that it was necessary for the European currencies to be restabilised also in relation to their international function in view of the growing importance of the economies of the individual European countries and of the Community as a whole.

If this is possible, we must resort to a European currency, or at least to a European currency reserve fund, adopting any measures that on a supranational plane will strengthen the possibilities of restoring the balance without falling back on national solutions, which are proving increasingly inadequate and which we as federalists and Europeans must undoubtedly regard as quite inapplicable in practice.

We must admit that in the Rome Treaties a common economic policy was scarcely touched upon; we must admit that a common monetary policy was practically outside the provisions of the Rome Treaties; that much progress has been made towards a common agricultural policy, although, as we know, with great difficulty. In respect to this too, however, it is necessary to go ahead on fresh bases. Precisely in this field of agricultural policies, now that from a simple customs union and facilitation of trade we are going on to the elaboration of a common policy aiming at common control of a whole sector, we come in contact with—I might say almost we come up against—the hard facts of monetary matters.

But this does not surprise the federalists. We had no intention in the Rome Treaties of bringing about a mere customs union; we did not desire the curious and absurd situation of member states being interconnected in respect of some policies and going their own national ways in other matters. We wished to open the way for European integration. I think reassertion of the Treaty and respect for its institutions, and reassertion, as has been stressed here (since it is the Consultative Assembly of the Council of Europe and the European Parliament that are discussing these problems), of the absolute need to extend the Community means behaving with that guarded optimism, or, if you like, with that non-suicidal pessimism, that is incumbent on politicians confronted with the present situation.

With this in mind, while I express my support for the conclusions of the Hougardy Report, I hope that the Commission and the Ministers who meet at The Hague in November will bear in mind all the close-knit argument regarding the inter-relationship of these problems that our colleague Mr. Hougardy has taken as a basis for his conclusions.

Perhaps we cannot do everything and must beware of maximalism, but certainly we shall have to make some moves in the monetary field, because on this field decisive battles for European integration will be fought. *(Applause.)*

The Chairman (*F*). — I call Mr. Rey, President of the Commission of the European Communities.

Mr. Rey, *President of the Commission of the European Communities* (*F*). — Mr. Chairman, Ladies and Gentlemen, the debate on European monetary problems, decided on by our two Assemblies last spring, has turned out to be highly topical in view of current events.

Things have been happening these days, on which I will comment in a moment, which show how very unsatisfactory the present monetary position has become in the free world in general and in the Community, or let us say rather in the continent of Europe in particular.

I will not keep you long, Mr. Chairman, as I want to concentrate on the European scene. In the space of two years we have had a series of crises: in October 1967, a crisis of the pound sterling which led to its devaluation; in spring 1968, a dollar crisis which led to the introduction of new monetary measures; in November 1968, we were within 24 hours of a serious French monetary crisis; since May 1969 the German mark has been too healthy, which has caused a crisis there; in the last two months, we have had the devaluation of the French franc at the beginning of August, and the floating of the Deutsche Mark at the beginning of this week.

I really do not think such a state of affairs can be regarded as satifactory.

Naturally, it is not my intention to criticise the major monetary authorities in Washington or to deny the great progress made in the free world since the last war, and I hasten to add that, insofar as monetary crises arise out of a lack of harmony between the monetary position and the general economic position of a country or region, it is obviously not the monetary system that is to blame. But what is very noticeable is the growing and in my view increasingly inadmissible part played in the variation of rates of exchange by purely erratic movements of increasing amounts of unstable capital which, let us admit, are speculative in character.

Some of these movements, of course, can be justified on economic grounds, others less and less so, and I think it would be wise to face up to this and to ask ourselves whether the existing systems should not be improved or changed.

To mention only the last two movements which have affected the currencies of the European Community, the fact that the

French Government felt obliged, or thought it was obliged, to change the French exchange rate at the beginning of the month, was not due simply to the general economic situation; it was due to the speculation. The person who said so was no other than Mr. Pompidou, President of the French Republic, in a public statement he made scarcely ten days ago.

So far as the Federal Republic is concerned, it is quite clear that if the revaluation of the mark has been a matter of public discussion for some months, and if the Government of the Federal Republic felt obliged less than six days ago to take the monetary decisions you all know about, it was not because of the general economic situation, but because speculative pressure had become so great that the German Government felt it could no longer resist it.

This state of affairs, Ladies and Gentlement, is intolerable. Exchange rates should be fixed either by the central banks or by the governments. It is quite inadmissible for them to be influenced in such a dramatic way simply by speculative or irresponsible movements of capital. When—as happens almost every year—we hear that a pleasure boat has capsized because the passengers had all moved to one side, and that some people have unfortunately been drowned, we do not take it as a matter of course; we say that the boat was badly built or had been overloaded, and we prosecute the captain or the boat-builder, but we do not just accept that sort of situation.

I think that is the position we have reached in the free world. It is becoming essential to start thinking more actively and dynamically about ways of remedying this state of affairs. That is the first thing I want to say.

My second remark is about the consequences for Europe. For what is barely acceptable in the free world becomes quite intolerable in Europe.

With great difficulty, as you know, we are in process of constructing certain integrated policies and making them work.

One of the most important of these is the common agricultural policy, based on a common price system. How can we possibly reconcile perpetual monetary instability with making an integrated agricultural policy like ours work?

I am very glad that my friend and colleague Mr. Mansholt is here. You know that these policies are mainly the fruits of his inspiration and workmanship. Tey have been followed by the successive commissions, the Hallstein Commission and then by the Commission of Fourteen. They have been approved by the European Parliament, adopted unanimously by our six governments, and put into operation. And yet we find ourselves in a position of monetary instability in Europe which is in process of compromising seriously the normal functioning of these policies.

We shall have an opportunity to discuss this on Monday at the meeting of the Council of Ministers for which we have asked. We shall also have an opportunity, I imagine, of doing so during this week in the European Parliament. But the problem exists, and it is therefore absolutely essential to find a remedy for this state of affairs, and that quickly.

The Commission believes that the remedy is to be sought in two directions: first, by strengthening economic solidarity and monetary co-operation within our six countries. As you know, we have adopted a plan which bears the name of our Vice-President, Mr. Barre. This plan, adopted on 12 February, at first ran into considerable opposition and many difficulties. But as time went on, people realised we were right, and on 17 July the Council of Ministers of our Community adopted the plan in principle. Studies which will lead to its final implementation are now in progress. I have every reason to believe that before the end of the year the Barre Plan will be in operation. It will, I am sure, make a very useful contribution towards improving the monetary machinery inside the Community.

The second direction in which a remedy can be sought is in the enlargement of the Community.

We are fully aware that such an enlargement, on which all the members of this Assembly have set their hearts, is fraught with difficult technical and political problems. In Brussels this week, we issued a supplementary opinion to that of 1967, in which we repeated that the time had come to pursue these negotiations, and gave certain indications as to how and on what lines they should be opened.

Neither do we underestimate the immense difficulties that lie in our way. But I am quite sure that if we succeed in the near future in overcoming these difficulties and reaching an agreement, we shall have increased European stability, we shall have broadened its foundations, and we shall also have contributed, at least in our own continent, towards finding a remedy for the monetary instability I have just been condemning.

That and that alone is what I wanted to say in this debate. As a member of the Hallstein Commission, I have taken part in these debates practically every year, and I know it is traditional at this Joint Meeting not to adopt any motions.

But something must come out of this debate. My personal feeling is this: if the debates on the excellent reports by Mr. Hougardy, Mr. Petersen and Mr. Federspiel, and the exchange of views which has taken place here during the last two days, have convinced us all that the instability of monetary systems in Europe is no longer tolerable, and that we must take rapid and energetic steps to remedy it, this debate will have been of some value. *(Applause.)*

The Chairman (*F*). — We shall now hear speeches from the Rapporteurs.

I call Mr. Hougardy.

Mr. Hougardy (*F*). — Mr. Chairman, Ladies and Gentlemen, I first wish to thank the speakers for the comments and observations they have been kind enough to make on my report. As for myself, I read with great interest the reports by Mr. Petersen and Mr. Federspiel and I am glad to note that although—as I pointed out yesterday—there had unfortunately been no contact between the Consultative Assembly and the European Parliament—our conclusions are practically identical; that is a point which needed stressing.

In winding up this debate, I think it is fair to say that practically all the speakers have been in agreement with the conclusions which we ourselves reached. We are all agreed that a political solution is needed; yet the answer I receive is that a political solution is impossible for the time being. This I understand; but the question then is: what is to be done?

In the remarkable summary which he has just given in his usual highly precise way, Mr. Rey has quoted a number of dates to emphasise the mass of obstacles and major problems with which Europe has been faced. He has emphasised that the Barre Plan is to be implemented by the end of the year; that will be a first step forward. Nevertheless—and I have just found amongst my notes one of the observations on Mr. Barre's plan—I should like to draw your attention to the fact that the Commission attached to that Memorandum a draft decision of the Council of Ministers recommending that member states should take no major decisions on economic policy until the relevant problems had been discussed in depth by the three appropriate bodies—the Monetary Committee, the Economic Policy Committee and the Budgetary Policy Committee.

How right that Memorandum was! Unfortunately, it is qualified by the words: "unless prevented by force of circumstance".

That is the crux of the problem. Too often, in fact, the claim that circumstances prevent such consultations is used as a pretext, and that is why we today are faced with the situation you all know about.

Some speakers have said that my conclusions went too far. I would point out that in section 1 of my report, I state quite clearly:

> "We are all becoming more and more clearly aware of the need to achieve this aim, and there is a growing tendency to see a solution to the world's monetary problems in the setting of a 'European monetary area' or a 'European reserve currency'. But such schemes can certainly not be carried through immediately. To begin with, it will be necessary to establish intermediate objectives and work towards minimum conditions."

Further on, in section 14, I add:

> "But before these further minimum measures become necessary, the first set of minimum measures must have been implemented—*politically.*"

The word "politically" is underlined.

In section 18, I continue as follows:

> "No doubt the policy of purely economic integration creates and intensifies the need for a common policy. But it comes close to the nerve centres of national politics, and every decision which the member states can no longer avoid takes them farther along this path. For the need of a common policy is not the same thing as the policy itself, any more than the aggravation of an illness implies its cure. Until there is a minimum of agreement on the general policy aims of the Community's member states..."

—and I am in agreement with a number of speakers here—

> "... any success achieved in economic integration will inevitably go hand in hand with an exacerbation of the political crisis through which Western Europe is passing, though the aim of political unity will not automatically be brought closer."

The proposals put forward by Mr. Glinne and Mr. Boersma interested me greatly. I hope that Mr. Glinne's will bear fruit. I would remind him, however, by way of reply, of the final paragraph of section 13 of my report, where I say:

"Clearly, a procedure whereby only losses were borne jointly would be politically unacceptable. Community arrangements cannot relate to expenditure alone. Proposals of this kind appeal only to those whom they enable to exercise equal influence on measures to stimulate and to curb expansion and also to affect a partner's policy on public expenditure. As things are at present, this would be feasible only with compulsory co-ordination of economic policies."

Once again, however, Mr. Glinne, I think your proposal deserves to be pursued.

I congratulate Mr. Chapman on his optimism. Perhaps it should be pointed out that it was this same famous optimism which enabled Great Britain to stand up to the enemy for four years. It might be as well for this to be stressed at a time when certain Eastern European states are celebrating the 25th anniversary of the liberation of their country.

What struck me as most significant in Mr. Chapman's remarks was the fact that Great Britain's trade balance will show a surplus of about 1,000 million dollars by the end of 1969 and that the process of restructuring British industry is going ahead.

I think that this effort and the expected surplus in the British balance-of-payments will be extremely important factors in the future development of the monetary problems now facing Europe.

Mr. Dequae, I should like to thank you for the opinions you expressed. You have spoken with the authority of a former finance minister. I think that the standpoint you took clearly demonstrates all the dangers inherent in this situation.

There is one point, Mr. Dequae, on which I cannot fully share your opinion, and it is the amount of Eurodollars which you quoted. I think the actual figure is much higher; but this is only a detail when set against the substance of your remarks.

Mr. Vredeling mentioned an article in the *Guardian* which, I must confess, had completely escaped my notice. The figures he quotes are extremely interesting and would be a suitable subject for discussion by our own Parliament's Political Committee and Economic Committee, since they cast a particularly interesting light on the monetary situation in Europe and underline the effect which trade can have on economic developments in our six countries.

I am sorry to have to say to Mr. Ohlin that I am unable to agree with his proposals.

Of course, Mr. Ohlin, with the system that you recommend, that is to say a flexibility margin of about 2 per cent, it may be possible to insure more easily against exchange risks.

All the same, I should like to draw the attention of this Assembly to the fact that insurance cover for exchange risks will have its effect on cost prices.

You know as well as I do how much insurance rates have increased in recent times, precisely because of the difficulties, and even dangers, inherent in such insurance.

And if exchange rates affect cost prices, to nobody's advantage, the result will be lower profits, at a time when productive investment is still difficult to achieve in some countries because of constantly dwindling profits.

And so I would ask Mr. Ohlin—and I think he will agree with me because he himself has admitted, in his own words, that he has no immediate solution to offer—I would ask what is to be done to prevent large differences in exchange rates from becoming the norm over excessively long periods.

Lastly, I would like to thank Mr. Cousté for the positive contribution he has made to this discussion.

I should also like, Mr. Chairman, to endorse personally

Mr. Oele's opinion that everything possible must be done to put an end to the distorted monetary situation in Europe before it is too late.

The Chairman (*F*). — I call the Rapporteur, Mr. Petersen.

Mr. Petersen. — There are no texts to be voted on at the end of the debate, but it seems to me that the conclusion drawn by Mr. Rey at the end of his speech may serve as an official resolution. All members of the two Assemblies will agree that monetary instability in Europe is intolerable and that remedies have to be found urgently.

Mr. Rey mentioned the importance of speculation in connection with the latest two events in European monetary developments, in August and this week. There are two reasons for monetary disturbance. One is a difference in unit costs of production and the other is speculation. In the short term, speculation is the more dangerous. But I believe that it is easier to counteract speculation. The co-operating central banks know the technique. If there was also the political will that problem could be handled.

It is impossible for a Rapporteur to touch upon all the points raised in the debate, but I want to say something on a matter stressed by Mr. Hougardy in his reply—the theory of more flexible exchange rates and especially what is now known as the "crawling pegs". I believe that, sensibly handled, this technique may solve the problem of uneven development in unit costs of production. It is easier to solve the problems that way than to have a restrictive wage policy and other restrictive economic measures in individual countries. The system of "crawling pegs" would have to be combined with wider margins of fluctuation in the daily movement of the exchange rates. If we had a well-organised forward market, exporters and importers might have a safe basis for their calculations. More attention should be paid to "crawling pegs", because we might have a means of getting away from the devaluations or revaluations which now disturb stability.

As to preventing foreign exchange crises, may I be allowed to mention what might be called the Norwegian type of foreign exchange policy. Except for the past two years, Norway has had a substantial deficit on foreign exchange balance in the post-war period, but we have not had any crises. The reason is that we have been able and willing to borrow long-term not only to cover all the deficits but also to increase our monetary reserves. If countries which cannot export enough to cover their imports were more willing to export securities, which can always be produced, there would be a better balance in the foreign exchange markets. Of course, that will be at a price. One must pay an attractive rate of interest to the lenders, but for about twenty years in Norway we have found that the price is well worth it.

The Chairman (*F*). — I call the Rapporteur, Mr. Federspiel.

Mr. Federspiel. — I shall not prolong this summing up, which President Jean Rey did so admirably and which my two colleagues rounded up on a number of economic questions.

This debate has brought out one thing without any real controversy except on minor technical points—the necessity of combining political action with whatever technical manipulations one can do with the currencies which are creating more and more trouble. I see some hope in that because it may drive our governments to consider political action also in other cases, being forced by this need to look seriously at the monetary problems.

The Chairman (*F*). I call Mr. Kirk, Chairman of the Political Affairs Committee.

Mr. Kirk. — I want first of all on behalf of the members of the Consultative Assembly to thank our colleagues of the European Parliament for joining us in what I think has been a very fruitful two-day discussion, and on behalf of all of us to thank the three Rapporteurs for the work they have done in this field. I must admit that when the subject was first suggested, I had the very gravest doubts about the wisdom of our pursuing it in these two days. It seemed to me that the discussion was likely to become something like the medieval discussions about the procession of the Holy Ghost, getting more and more arcane as the two days went on, but as Mr. Rey, whom we are delighted to see with his colleagues, said, the events of the last two months have given the debate an actuality which in the spring it did not appear that it would possess. In consequence, we have had a very solid manifestation on the part of the Commission and on the part of the members of the two Assemblies of the need for some solution to the constant instability of monetary problems, not only in Europe but outside Europe as well.

As Mr. Rey pointed out, for instance, one of the keystones of the Community's policy—the common agricultural policy—has been very severely threatened. This creates problems not only for them and their Commission but, if I may speak not as Chairman of the Political Committee but as a British delegate, for us. Until now we have been informed that that policy was as immutable as the Ten Commandments carved on tablets of stone which could not be touched, but now two leadings Members of the Community have found no difficulty in touching it very hard. I assure Mr. Rey that Britain will be hoping for a quick solution of the problem, like him and Dr. Mansholt, because it will complicate our approaches in the common negotiations unless we know where we stand in the matter.

The trouble with all these arguments such as we have had in these two days is that they are a great demonstration of the unsatisfactory nature of the present state of affairs, and around the arguments revolve the experts who always remind me of Mr. Belloc's doctors who murmured as they took their fees, "There is no cure for this disease", who never come up with a solution other than did Mr. Rey in his announcement that the present solution is intolerable and we must do something about it. He says the Six must do something. That is perfectly true. But the Six alone cannot settle the problem even among themselves. The two major reserve currencies are not represented in the Six. They cannot even solve the problem with the applicant states. We wish they could, for that would help. The position of the dollar is fundamental to all this. It is a problem which affects us in Europe more than any other part of the world; and yet it cannot be solved by Europe alone.

The answer is a new kind of Bretton Woods Conference. We have been moving towards it for a long time. There was the development at Rio 18 months ago. The development of special drawing rights is all a patching up of the present situation, and yet surely it would be right to say that twenty-five years after Bretton Woods we cannot exist entirely on a system laid down in circumstances that were totally different from those of today. Those were the days when Europe was an economic disaster area and the United States was a wealthy partner. I would not say that America is now a disaster area, but Europe has economic riches and it is now time to look again at the problems of the system set up at Bretton Woods to see what we can put right and whether or not we might start afresh. To discuss things like "crawling pegs" and "floating marks" in isolation means that we are kidding ourselves that we can patch up the present system. I do not believe we can.

I am no monetary expert. I have listened with admiration to speeches made by people cutting their way through the labyrinth we are in at present. It has been a very useful debate but may I conclude with one word for consideration. I think it has been to some extent fortuitous in that is followed the events of the last two months. I would suggest, with great respect, that before our next annual meeting it might be a good idea if the Bureaux of the two Assemblies could have a look at the form which this annual meeting takes to see whether, after sixteen years, we might not be able to find better ways of carrying out our affairs. Originally the meeting was designed to inform the British and other non-Community countries of the workings of the Coal and Steel Community and the Parliamentary Assembly. There is now a sort of ritual which we went through with Mr. Hougardy's report, that is, that we receive a report from the European Parliament at the beginning of the proceedings and never mention it again; and we have not done so this year.

Instead, we have, over the last few years, been selecting particular themes, mainly in advance, in the hope that they will be reasonably topical when we come together. I feel that we should look at this again, not necessarily because it is wrong but because to choose a theme of this technicality as early as we do in the hope that it will turn out, as it did this week, to be topical, could lead to very grave difficulties. It is possible that we could make this procedure slightly better than it is now.

It only remains for me on behalf of the Political Committee and, I hope, the Assembly, to thank everyone who has contributed to the debates, particularly the President and members of the European Commission for coming here and giving such an edge to our discussions, and to hope that in future years we may be able to achieve topicality without necessarily being as technical as we have been over the last two days.

2. *Closure of the Joint Meeting*

The Chairman (*F*). — In connection with what Mr. Kirk has just said, I have to inform you that a short working meeting was held yesterday as the result of negotiations between the groups of the two Assemblies, and President Scelba and myself proposed that the form and time of the Joint Meetings should be changed —though of course the matter must be referred to the organs of the two Assemblies. We could also review, of course, the way in which Joint Meetings are prepared and the choice of subjects.

The fact is that when the meeting which has taken place here yesterday and today was first suggested, there was a good deal of sceptical comment in both our Assemblies. Whether as the result of a decision by the German Government or as the result of speculation—I am inclined to think it was speculation—our work has acquired an interest and a topicality which it might well have lacked.

All of us here hope that next year will mark the start of those general European negotiations which have been talked about for so long but which have not yet managed to get off the ground.

I think there can be no doubt about the value for both of our Assemblies of a Joint Meeting held once every year, and you may rely on those responsible for the organisation of this Assembly's work to devise ways of improving a sixteen-year-old institution which has sometimes been manifestly useful and sometimes been viewed with a certain scepticism, as I have just mentioned, but which in any event will be preserved.

I therefore hope to see you again at the 17th Joint Meeting of members of the European Parliament and of the Consultative Assembly of the Council of Europe.

In closing this 16th Joint Meeting, I should like again to express my special thanks to the Rapporteurs and the members of the Commission of the European Communities, who have rendered such outstanding service in the organisation and holding of these debates.

The 16th Joint Meeting is at an end.

The Sitting is closed.

The Sitting was closed at 12.15 p.m.