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STATEMENT BY VICE-PRESIDENT BARRE TO THE EUROPEAN PARLIAMENT ON THE PRESENT MONETARY SITUATION

(Strasbourg, 4 July 1972)

Properly to grasp the present situation, we have I think to distinguish three separate problems, the problem of the pound, the problem of intra-Community exchange rates, and the problem of the dollar.

I shall not enlarge on the reasons for this situation. The internal troubles of the British economy, the debates in Britain itself on a possible change in the parity of the pound, the doubts voiced in many quarters there as to Britain's ability to participate in the Community monetary agreements, were bound to trigger speculation. The scale of the speculative pressure which developed in the space of a few days was due to the role of the City of London in international financial dealings.

The present sterling crisis therefore does not come as a complete surprise: the fire was already smouldering. But it does plainly demonstrate that there can be no ignoring or evading Britain's economic, monetary and financial problems, and that the smooth functioning and development of the enlarged Community will depend upon their being tackled effectively.

The Community noted with understanding the steps Britain found itself compelled to take. What matters now is that Britain should enter the Community at the beginning of 1973 with its exchange position restored to normal vis-à-vis its partners. It will then have to look to the other member countries for the assistance to enable it progressively to overcome its difficulties.

Ireland, being so closely linked with Britain in monetary respects, had no option but to follow Britain's line.

Denmark, struggling with balance of payments difficulties, withdrew temporarily from the Basle agreement while abiding by the Washington agreements. Norway for its part stood by all its undertakings.

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What were the Six to do? At their meeting at Luxembourg they decided to observe the Washington agreement on rates of exchange, and to keep in force the monetary arrangements arrived at in March within the Community.

A special problem arose in the case of Italy: the floating of the pound exposed the lira to bear raiding and a substantial flight of capital. But the Italian position was quite different from the British and did not warrant floating the lira. It is true that the Italian economy is having its troubles and uncertainties, but Italy's balance of payments is in surplus, its reserves are well stocked, and the trend in its export prices has so far been more favourable than that of its principal partners.

When we compare the limited disadvantages resulting from the temporary derogation that has been granted to Italy with the economic and political disadvantages that would have been entailed by actually scrapping the 2.25% margin, we can only be thankful at the course adopted. The derogation in respect of Italy is simply the consequence of a de facto situation whereby the Central Banks' gold is frozen and cannot fulfil its function as the medium of international settlements.

I should be the last to claim that this means other difficulties will not arise in the future. But then, nobody ever supposed the monetary organization of the Community would come about at the wave of a wand. The machinery of the Basle agreements was carefully designed: it can operate among the Six, but only provided the Member States are truly resolved to uphold the system by close solidarity.

It cannot be said too often that the reason speculation so often succeeds is that it is conducted in the expectation that the front put up against it will crack: speculation is anything but irrational. Why should the speculators forgo making a profit if they have every chance of managing to do so? Why should they believe an agreement will hold firm if they know that at the first impact it will be called in question and that even the parties to it do not really expect it to last?

Well, at Luxembourg the six Member States made it clear that they did <u>not</u> intend to go back on what they had made up their minds to three months before. The future hinges on their continuing to display the same resolution.

What I have been saying applies likewise to the Washington agreements, that is, to the dollar problem. The reason why these agreements were concluded nevertheless was that they put an end to a state of affairs which had become untenable. The countries which had floated their currencies were increasingly worried at the way their rates against the dollar were rising; the countries which had reacted by imposing controls were having to clamp them on tighter and tighter. All had come to see the importance of establishing and preserving a stable structure of realistic exchange rates capable of orderly adjustment.

And are we now to repudiate the still precarious order in monetary matters that was so laboriously restored?

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Is it so impossible to uphold the exchange rates established in December by making full use of the wider margin of fluctuation against the dollar, by manipulating interest rates, and by wielding the various weapons available for reducing inflows of speculative capital and influencing internal liquidity? This is not a matter of doctrinaire principle, it is a matter of common sense and competence.

Some people are wondering, nevertheless, whether this machinery is in fact sufficient to cope with a fresh crisis leading to a fresh surge of dollars into the Community. Here and there the idea is being resurrected of jointly floating the Community currencies.

Now floating, that is, ceasing to buy dollars, is in the present state of the international monetary system tantamount to accepting a further revaluation of most if not all the Community currencies against the dollar. So the first question that arises is this: are the Community countries prepared to accept a revaluation over and above the one they accepted in December? The answer depends on the size of this new revaluation. Would it be a small one or a substantial one? Nobody knows. At all events, recent experience has shown that when you set out to float you do not know where it is going to take you. I remember when I made this point in May 1971 I was assured that the mark would not appreciate by more than 5%. We all know what happened six months later.

Since the advocates of floating want all the Community countries to float together, another question at once suggests itself: can all Six or all Ten, bound to one another by stable, realistic exchange rates, accept one and the same revaluation of their currencies against the dollar?

Supposing they could, a third question arises: since some of the Community countries cannot, for obvious economic and social reasons, afford to let their currencies appreciate too much in relation to the currencies of third countries, is the Community as a whole prepared to launch a joint, controlled float? This would necessarily involve concerted interventions by the Central Banks with respect to the dollar, which would mean having to build up a very large strategic reserve able to withstand speculation, and in addition an effective Community armoury against inflows of hot money.

Fourth and last question: if, as is sometimes argued, the dollar were to depreciate sharply, would the Community be prepared to safeguard its competitive capacity by introducing exchange countervailing charges? This eminently logical course is indeed proposed by some of those who favour floating, but one cannot blink its implications.

Personally, I do not rule out the possibility of its being necessary, if matters should so develop that there is really nothing else for it, to resort to joint floating of the Community currencies, but I do want to point out most forcibly that for this to have any prospect of success the float would need to be a controlled one and the necessary means of action ready to hand: otherwise the operation might easily end very quickly in ignominious failure, with highly regrettable economic, political and psychological consequences. So far from its serving to speed the pace of European monetary unification, the result might well be to bring to nothing all that has been done up to now to set the process in motion.

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In the coming weeks and months we shall have to live dangerously on the monetary front. And that means it is absolutely essential to keep our heads.

As I have told the House over and over again in the last few years, it is all-important in economic and monetary matters not to indulge in wishful thinking, not to burke the issues, not to take words for deeds.

To sum up simply and plainly: it is the Community's interest to preserve the structure of exchange rates agreed in Washington in December, and to prevent any reversion to a state of monetary and commercial anarchy harmful to our economies. And it is still more the Community's interest to maintain and reinforce the Community monetary agreements, in order that the Common Market should function smoothly, international monetary difficulties be handled in orderly fashion, and the way left open for economic and monetary union.

This, without doubt, is the best and surest way to keep the Community together now and in the future.

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