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EUROPEAN LEADERS GIVE DETAILS ON EUROPEAN MONETARY SYSTEM

Hans-Dietrich Genscher, current president of the European Community's Council, and Roy Jenkins, president of the European Community's Commission, addressed this year's opening session of the European Parliament in Luxembourg September 13.

Genscher, foreign minister of the Federal Republic of Germany, explained how the European monetary system proposed at the Bremen Council will work, and Jenkins emphasized the characteristics of the proposed system in relation to the world monetary system.

The following statement is excerpted from Genscher's address:

"It is gratifying to be able, as president of the European Council, to report to this august body on conclusions reached at two important conferences in July: the session of the European Council in Bremen and the economic summit in Bonn.

At both conferences, in Bremen and Bonn, we sought to find answers to challenges with which we are confronted by the economic and social situations in the European Community (EC) and in the world...

This became clear in Bremen: within the EC there is a determination by the policymakers that they are going to push ahead with courage and with new ideas in coping with inflation and unemployment. This concurrence gives us a comprehensive basis of departure for future policies of the member-countries...

The European Council in Bremen agreed on a joint procedure in economic policy. The common policy is to aim at fighting inflation, bringing about greater monetary stability, broadening international trade, making progress in the energy sector, doing away with regional imbalances, and revitalizing demand in Europe. All this, in turn, is designed to achieve a higher rate of economic growth and thereby to reduce unemployment.

We recognized that a joint procedure, thanks to complementary measures within that jointly agreed operation, contributes toward easing domestic and international pressures of individual member-countries. Moreover, our individual country-by-country measures will be the more effective in that they are in fact planned to complement each other. All member-countries of the EC are taking part in this joint procedure. Each country will proceed in accordance with the leeway it has to act in matters of economic policy.

Thus, countries without problems of inflation and balance of payments will do more to boost their domestic demand, especially the demand for investment or capital goods. Meanwhile, countries with sharp price rises will give priority attention to their problem of distorted, inflationary development. This finely attuned procedure in all areas of our economic life is to help increase the confidence of investors and consumers in the longer-term perspectives for growth within the Community.

Within this conjunction, a major role is to be played by the introduction of a stable currency zone in Europe. The establishment of a lasting and effective European currency system, the European Council resolved, is desirable. Accordingly, the Council outlined such a monetary system.

Let me now report on the major facets of the European currency system as discussed by the European Council, and based on consultations and preparatory work by the Council of Finance Ministers. It works like this:

As far as influencing and controlling currency-exchange rates is concerned, the new system is at least as strict as the monetary arrangement we have called the "snake." During the initial period, as the operation is getting underway, those EC member-countries that do not participate in the snake can -- within a specified period -- decide on a somewhat broader range of permissible currency fluctuation.

On principle, the plan involves intra-European intervention as required in the currency situations of individual participating countries.

Any alterations of the agreed currency-exchange rates will be reached through concurrence.

The core of the system is to be the European currency unit. This unit will serve, especially, as a means of bookkeeping, of calculating, by the EC countries' monetary authorities.

An initial reserve to support the European currency unit (this for payments to each other by the Community's central or currency-issuing banks) will be created -- to name two aspects -- by stocking U.S. dollars and gold (for example, 20 per cent of the normal reserves of the member-countries' central banks). The second aspect: a comparable contribution in the currencies of the various member-countries.

As for participating countries' monetary-rate policies vis-a-vis third countries, the participants will reach an accord on a common procedure.

In pursuit of the general aim, there will be consultations in the appropriate agencies and among the central banks of countries taking part in the system.

No later than two years after introduction of the system, the then-existent agreements and facilities are to be consolidated -- institutionalized -- as a so-called European Currency Fund.

Now a system of currency-policy cooperation is only going to work if the European Community and member-countries of the operation pursue a policy leading toward higher growth rates and increased stability.

At the same time, in Bremen, the European Council gave instructions to look into what measures are to be taken, within such a system as I am here talking about, to strengthen the economies of the financially less-well-off member-countries. Such measures are needed if we are really to maintain a stable currency area.

The ministers of finance were requested to work out the necessary guidelines, so that by October 31 we can have worked out the regulations needed to get such a system going...

As for our partners beyond Europe, the United States, Japan and Canada have already expressed positive reactions to the monetary decisions of the European Council in Bremen..."

<u>These remarks are excerpted from Jenkins' speech</u>:

"The Bremen Council... provided a firm and fresh impetus to the further integration of the Community. I hope that we have in Bremen outlined the foundation of a European monetary system that can be lasting and effective. I believe we can build surely on these foundations because our approach had several important characteristics:

First,it is not a petty penny-pinching scheme. The resources suggested as available to the new system would be somewhat greater than those of the IMF.

Second, it combines the need for concerted discipline with a realistic degree of flexibility. It does not pretend that you can just proclaim monetary stability, without doing anything to make it effective.

Third, it recognizes that monetary discipline alone is not enough but must be buttressed by the so-called concurrent studies to give greater help to the weaker members of the Community, insure that the system is not a new constraint, but a new freedom.

Fourth, it is sensible in its approach to the dollar. It is in no way anti-dollar: quite the reverse in my view. But it recognizes the dollar cannot and should not run the whole world monetary system as it did in the days of Bretton Woods. There has been a sea-change. It is time for Europe to take a greater monetary responsibility in the world. It is much better for Western unity that we should do that, rather than complain and recriminate at moments of dollar weakness.

Fifth, The European leaders showed a political will, a determined political will for Europe, stronger, more ambitious and more rapidly evident than I believed possible when I endeavored to refocus attention at Florence nearly a year ago on the monetary route forward in Europe.

We should not therefore be complacent about the results of the summits, certainly not of Bonn or even of Bremen. But we can, and should, have our confidence renewed in the capacity of the Community to move forward again. The next six months can provide for the Community opportunity for advance comparable to the major breakthroughs in its history."