

"THE EUROPEAN MONETARY SYSTEM: 18 MONTHS LATER"

The European Monetary System: recent experience and future prospects was the topic of Roy Jenkins' address to the Association of European Journalists in Rome on October 24, 1980. The President of the Commission of the European Communities stressed the following points:

Almost to the day three years ago I made a speech in Florence. I then argued that the time had come for a new push towards the monetary integration of the European Community. Within nine months the European Council at Bremen took the decision in principle to create the European Monetary System; and another nine months after that, in March 1979, the system came into operation.

In my judgement the arguments I set out at Florence have lost none of their validity. I believe that monetary union favors a more efficient and developed rationalization of industry and commerce; would help produce a new era of price stability in Europe and achieve a decisive break with our present chronic inflationary disorders; would help in coping with the present economic recession and one of its ugliest aspects, unemployment; would promote a more equitable distribution of economic welfare within the regions of the Community supported by a properly balanced Community budget and a greater transfer of resources through the Community institutions, and would promote that political development of our institutions which is our common European faith and objective.

To these ends, the European Monetary System is an important means and indispensable practical beginning. Real improvements have already been achieved.

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An area where results have so far been disappointing has been our failure to develop coherent policies towards currencies outside the System. We should be in a position to manage the ECU*/dollar exchange in a coordinated fashion so as to avoid or at least minimize the strains. It is in our power to do so.

Another disappointment is that although sterling is formally included in the European Monetary System, it is an outsider so far as existing exchange rate arrangements are concerned. I continue to believe that this is a great mistake, both for the Community and still more so for the United Kingdom.

If the British do not become full members of the System, if they do not accept the same risks and responsibilities and enjoy the same advantages as the other members, then they must not complain if the System evolves in a fashion which does not necessarily take account of the particular characteristics of sterling and the particular underlying economic circumstances of the United Kingdom.

There is much flexibility in the exchange rate system of the EMS. Other countries have found it possible to reconcile pursuit of their economic and monetary objectives with full participation in the exchange rate system. There is no reason why the United Kingdom should not do the same. Greater exchange rate stability would be much welcomed by British exporters, and would be good for the British economy as a whole.

There are two features of the EMS for which further development was explicitly planned. These are the European Currency Unit and the European Monetary Fund. The ECU is now firmly established as the unit in terms of which the official business of the Community is conducted. Use of the ECU in the private sector has begun. But so far the scale of operations has been small. This is something which must be left essentially to the market.

Within the realm of official use of the ECU, it seems to me that there are at least two things which need to be done without delay :-

- First, it should be the center of the European Monetary System. The intervention of Community central banks in the foreign exchange market continues to be predominantly in dollars. Then there are limitations to the acceptability of the ECU. At present a creditor central bank has only to accept repayment of 50% of its claims in ECU. I think this should be changed forthwith.

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* ECU - the European monetary unit.

- The second change which I believe necessary concerns the relationship between the ECU and gold. The price of gold has been extremely volatile since the EMS came into operation. This was not of course foreseen. Unless a revision takes place, the quantity of ECUs on the market will partly depend on the price of a commodity which can oscillate wildly in response to extraneous and irrelevant factors. In my judgement we should revise the present rules in such a fashion as to ensure that the quantity of ECUs to be created over a given period is based on an objective assessment of the Community's needs.

In spite of these disabilities, the ECU exists and is flourishing. The same cannot be said for the projected European Monetary Fund. It would be premature to claim that the European Monetary Fund should spring into existence as a kind of central bank for Europe. On the other side it would be a wasted opportunity if it were to be no more than a revamped version of the European Monetary Cooperation Fund under a grander name. In my view, the new Fund should from the beginning have at least some of the features and functions of a central bank.

First it should determine the quantity of ECUs to be issued and control the timing of issue; secondly it should have the task of coordinating the monetary policies of individual Member States; and thirdly it should control intervention policies with regard to third currencies. Decisions on these and other matters should go before the European Council next year.

The question now is to maintain the sense of priority which led to the decision of Bremen in 1978, and not to prevent day-to-day difficulties obscuring our more distant objective.
