



As requested I gave the original to the PM last night-

Molke
Dyball
20/3.

ECFO 001/20
OO FCO DESKBY 201930Z
PP BRUSSELS
PP COPENHAGEN
PP THE HAGUE
PP ROME
PP DUBLIN
PP PARIS
PP BONN
PP LUXEMBOURG
PP ATHENS
GRS 1100

SECRET
DESKBY 201930Z
FM UKREP BRUSSELS 201900Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1206 OF 20 MARCH 1983
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS

E.M.S. REALIGNMENT CONFERENCE

SUMMARY

1. MINISTERIAL MEETING ADJOURNED THIS AFTERNOON WITHOUT AGREEMENT. WILL RESUME AT 9 AM TOMORROW IN HOPE OF REACHING AGREEMENT BEFORE EUROPEAN COUNCIL IN LIGHT OF OVERNIGHT CONSULTATIONS. CENTRAL BANK GOVERNORS HAVE AGREED THAT WHEN MARKETS OPEN TOMORROW, THE OFFICIAL INTERVENTION RATES WILL BE DECLARED TEMPORARILY SUSPENDED AS ALSO THE OFFICIAL DAILY FIXING IN THOSE COUNTRIES WHERE THAT APPLIES. KEY ISSUE IN DISPUTE IS EXTENT AND DISTRIBUTION OF SPREAD BETWEEN FRENCH FRANC (FF) AND DEUTSCHE MARK (DM).

DETAILED REPORT

2. MONETARY COMMITTEE YESTERDAY MORNING IDENTIFIED FOLLOWING MAIN ISSUES FOR DECISION BY MINISTERS:-
(I) EXTENT OF SPREAD BETWEEN FF AND DM CONSENSUS WAS FOR 7 - 9 PER CENT;
(II) POSITIONS OF INDIVIDUAL COUNTRIES. GERMANS WERE PREPARED TO MOVE UPWARDS MORE THAN HALFWAY BUT FRENCH RESISTED ANY DOWNWARD MOVEMENT OF FF AT ALL. OTHER MEMBERS IN GENERAL PREPARED TO SLOT IN (BELGIUM, LUXEMBOURG AND DENMARK FOLLOWING DM IN PART; ITALY AND IRELAND MOVING TO BOTTOM OF SPREAD; AND DUTCH PROBABLY FOLLOWING DM);
(III) BACK UP MEASURES TO MAKE REALIGNMENT CREDIBLE. NO SPECIFIC PROPOSALS EMERGED BUT FRENCH HINTED AT FURTHER MEASURES TO REDUCE DEMAND;
(IV) WIDENING OF INTERVENTION MARGINS. NOT FAVOURED BUT OFFERED FOR CONSIDERATION AS TEMPORARY MEASURE (SAY, TO 4 PER CENT) TO SECURE LAST DITCH SOLUTION.
3. AT SERIES OF MINISTERIAL MEETINGS YESTERDAY (WITH STOLTENBURG IN CHAIR) FRENCH (DELORS) REFUSED ANY CONCESSION AND THREATENED TO WITHDRAW FROM E.M.S. UNLESS GERMANS WILLING TO BEAR COMPLETE

IMMEDIATE

ADVANCE COPY

D/B 201930Z

PS
MR EVANS
MR HANNAY
PS/TELE R. ARMSTRONG
MR HANCOCK
MR HAYES.
MR ANDRESS
MR LITTLE
MR HEDLEY-MILLER
MR MONCK
MR PERETZ
PS/GOVERNOR
MR GILL
DUTY OFFICER D/B
202000Z

R.C.

3. AT SERIES OF MINISTERIAL MEETINGS YESTERDAY (WITH STOLTENBERG IN CHAIR) FRENCH (DELORS) REFUSED ANY CONCESSION AND THREATENED TO WITHDRAW FROM E.M.S. UNLESS GERMANS WILLING TO BEAR COMPLETE BURDEN OF AT LEAST 3 PER CENT ADJUSTMENT. CORE OF ARGUMENT WAS THAT FOLLOWING JUNE 1982 REALIGNMENT FRANCE HAD TAKEN SERIES OF MEASURES TO RESTORE CONTROL OVER ECONOMY: THESE WOULD TAKE TIME TO WORK AND THERE WOULD STILL BE SUBSTANTIAL GAP BETWEEN FRENCH AND GERMAN INFLATION AT END 1983. FRANCE COULD NOT BE EXPECTED TO MAKE FURTHER SACRIFICES WHICH WOULD JEOPARDISE ATTEMPTS TO MASTER INFLATION. GERMANY MUST THEREFORE TAKE RESPONSIBILITY FOR ADJUSTMENT BY REVALUING DM. IF FRANCE LEFT E.M.S. PROTECTIONIST POLICIES WOULD ALSO BE INTRODUCED. DELORS MADE MUCH OF CURRENT CRITICISM OF E.M.S. AND COMMUNITY GENERALLY IN FRANCE, AND PRODUCED LIST OF UNRESOLVED GRIEVANCES, WHICH HE EVEN ARGUED IN HIS OPENING STATEMENT, WOULD HAVE TO BE RESOLVED AS A PRIOR CONDITION FOR CONTINUED FRENCH MEMBERSHIP OF THE EXCHANGE RATE MECHANISM. THIS WAS SEVERELY CRITICISED BY THE ITALIANS (GORIA).

4. GERMANS OFFERED TO GO MORE THAN HALF WAY BUT ARGUED STRONGLY THAT EXCESSIVE REVALUATION OF DM WOULD THREATEN INCIPIENT GERMAN ECONOMIC RECOVERY. RECENT INTEREST RATE REDUCTION HAD MADE SIGNIFICANT CONTRIBUTION TO EASING PRESSURE ON FF: AND MONEY SUPPLY HAD BEEN INCREASING AT EXCESSIVE RATE.

5. AFTER OVERNIGHT CONSULTATIONS DELORS CONFIRMED IN PLENARY THAT FRANCE INSISTED ON 3 PER CENT SPREAD AND GAVE SIGNS OF BEING WILLING TO ACCEPT SOME DOWNWARD MOVEMENT OF FF, POSSIBLY WITHIN WIDENING OF MARGINS FROM TWO AND A QUARTER PER CENT TO 3 PER CENT. HE ALSO GAVE NOTICE OF FRENCH REQUEST FOR 4 - 5 BILLION DOLLAR CREDIT FACILITY FROM 1981 COMMUNITY LOAN MECHANISM AND INDICATED THAT FRENCH GOVERNMENT WOULD ANNOUNCE TOMORROW OR TUESDAY NEW MEASURES TO RESTRAIN DOMESTIC DEMAND, WITH A VIEW TO ELIMINATING THE TRADE DEFICIT BY END 1984.

6. DISCUSSIONS THEN CENTRED ON SERIES OF NEGOTIATIONS ON POSSIBLE ALLOCATION OF 3 PER CENT SPREAD. (THESE WERE UNREAL IN AN ECONOMIC SENSE, BECAUSE THERE WAS NO FIXED REFERENCE POINT AGAINST WHICH THE VARIOUS COMBINATIONS WERE OR COULD BE MEASURED: BUT THEY ASSUMED ENORMOUS POLITICAL IMPORTANCE). CURRENT POSITION IS THAT GERMANS ARE UNWILLING TO INCREASE DM BY MORE THAN 5 PER CENT, AND FRENCH TO REDUCE FF BY MORE THAN 2 PER CENT, ALTHOUGH AT ONE TIME FRENCH SEEMED WILLING TO CONTEMPLATE 2.5 PER CENT. ALL ATTEMPTS TO COMPROMISE HAVE SO FAR FAILED (EC CHANCELLOR SUGGESTED DM + 4.75 PER CENT AND FF - 2.75 PER CENT) AND DELORS HAS ACCORDINGLY RETURNED TO PARIS TO CONSULT PRESIDENT.

7. IF AGREEMENT CAN BE REACHED BETWEEN FRENCH AND GERMANS, OTHERS SHOULD FIT IN FAIRLY EASILY. POSSIBLE REALIGNMENT ON BASIS OF DM + 5 PER CENT AND FF - 2.5 OR 3 PER CENT WOULD BE:-

DUTCH GUILDER + 3 PER CENT

BELGIAN FRANC, LUXENBOURG FRANC AND DANISH KRONE + 1 PER CENT

ITALIAN LIRA WITH FF

IRISH PUNT - 4 PER CENT

8. IN VIEW OF MARKET REPERCUSSIONS CENTRAL BANK GOVERNORS (WITH GREAT RELUCTANCE AND APPREHENSION) AGREED THAT FROM OPENING TOMORROW AUTHORITIES WOULD TEMPORARILY SUSPEND THEIR OBLIGATORY BUYING AND SELLING RATES FOR THEIR PARTNERS' CURRENCIES (THOUGH RETAINING THE RIGHT, IF THEY WISHED, TO INTERVENE AT RATES OF THEIR CHOOSING) AND, WHERE APPLICABLE, CANCEL THE OFFICIAL FIXING IN THEIR MARKET. THIS MAY BE WRONGLY DESCRIBED AS 'CLOSING MARKETS', BUT COMMERCIAL TRANSACTION WILL, OF COURSE, CONTINUE.

9. MINISTERS AGREED THAT STOLTENBERG SHOULD INFORM PRESS BRIEFLY, WITHOUT MENTIONING ANY FIGURES, OF ADJOURNMENT OF DISCUSSION. BUT SEVERAL MINISTERS (NOTABLY DELORS) HAVE SPOKEN TO PRESS AND

9. MINISTERS AGREED THAT STOLTENBERG SHOULD INFORM PRESS BRIEFLY, WITHOUT MENTIONING ANY FIGURES, OF ADJOURNMENT OF DISCUSSION. BUT SEVERAL MINISTERS (NOTABLY DELORS) HAVE SPOKEN TO PRESS AND MAIN FIGURES SEEM WELL KNOWN.

COMMENT

10. PROSPECTS FOR EARLY AGREEMENT TOMORROW DIFFICULT TO ASSESS. DELORS PERSONALLY SEEMS TO WANT TO REACH AGREEMENT AND HAS MADE CONCESSIONS FROM OPENING POSITION BUT HAS SO FAR BEEN UNABLE TO GET NECESSARY BACKING TO CLINCH DEAL. REPORTS OF IMPENDING FRENCH GOVERNMENT RESHUFFLE COULD LEAD TO STRENGTHENING OF HIS HAND, BUT TIME IS SHORT IF DEAL TO BE STRUCK WITH GERMANS BEFORE TOMORROW MORNING. IF DELORS UNABLE TO GET BACKING OVERNIGHT, AGREEMENT BY FURTHER NEGOTIATION IN PRESENT MINISTERIAL GROUP TOMORROW MORNING SEEMS UNLIKELY AND BUCK MAY WELL THEREFORE HAVE TO BE PASSED TO EUROPEAN COUNCIL. NEGOTIATIONS HAVE NOT BEEN HELPED BY POOR CHAIRMANSHIP BY STOLTENBERG WHO, DESPITE DIFFICULTIES, COULD IN OUR VIEW HAVE MADE GREATER EFFORTS TO BRIDGE SMALL FINAL GAP.

11. CHANCELLOR WILL REMAIN IN BRUSSELS FOR RESUMED MEETING TOMORROW (BUT WILL HAVE TO LEAVE BY LATE MORNING IN VIEW OF COMMONS BUDGET DEBATE). FINANCIAL SECRETARY WILL, AS PREVIOUSLY PLANNED, ATTEND ECOFIN (WHICH IS DUE TO FOLLOW RESUMED MEETING). UNWIN WILL STAY ON IN BRUSSELS TO BRIEF EUROPEAN COUNCIL DELEGATION.

FCO ADVANCE TO:

FCO - PS/SOS: EVANS: HANNAY

CAB - PS/ARMSTRONG: HANCOCK

MAFF - HAYES: ANDREWS

TSY - LITTLER: HEDLEY-HILLER: MONCK: PERETZ

BANK - PS/GOVERNOR: GILL

NO.10 - DUTY OFFICER (DESKBY 202000Z)

BUTLER

NNNN

Infaxed to Chequers
11.30pm 18/3
BTT

PRIME MINISTER

REALIGNMENT OF EMS

The Germans have agreed to a request from a number of countries (characteristically not including France!) for a conference tomorrow on a realignment of the EMS in view of the strains now on the various currencies.

The Germans have agreed to call a conference which will start at 5.00 p.m. tomorrow in Brussels. The Chancellor is going. There will be a meeting of officials at 1215 attended by the Governor, and Mr. Unwin and Mrs. Hedley-Miller from the Treasury.

The Germans have hinted that if it becomes difficult for them to retain the Chair because they are an interested party, the Chancellor may be asked to take the Chair as "a neutral judge".

FERB

18 March 1983

013
Prime Minister.

A.V.C. 25/10

EUROPEAN MONETARY UNION - WHY NOT?
BY PIERRE WERNER, PRIME MINISTER OF LUXEMBOURG

26 OCTOBER 1982

THE TOPIC ON WHICH I AM SUPPOSED TO TALK TO YOU HAS THE SPECIAL FEATURE OF UNTIMELINESS. I MEAN THAT WHENEVER I HAPPENED TO SPEAK ABOUT OR TO LECTURE ON WHAT HAS BECOME OVER THE YEARS NEARLY A STANDING PRACTICE OF MINE, TURNED OUT SO VERY OFTEN IN THE MIND OF MY HEARERS TO BE CONSIDERED AS UNSEASONABLE. AND WHEN I TRIED TO CONVINCE THEM TO LET ACTION FOLLOW ACQUIRED INTELLECTUAL CONVICTION, I GOT REPEATEDLY THE SOBERING ANSWER, THAT THIS WAS NOT THE RIGHT MOMENT, THAT THINGS HAD NOT MATURED.

AT THE RISK OF RAISING IN YOUR MIND THE SAME QUESTIONING AND DOUBTS, I ACCEPTED ONCE MORE THE THEME OF MY SPEECH TO BE MONETARY INTEGRATION. IT MIGHT SEEM PRESUMPTUOUS! BUT I FEEL THAT FROM TIME TO TIME, IT IS APPROPRIATE TO TEST THE IDEA WITH RESPECT TO THE UNDERLYING CURRENT ECONOMIC AND POLITICAL REALITIES.

ESPECIALLY IN A PERIOD OF STRAIN AND TURBULENCE IN THE MARKETS WE ARE BOUND TO MEASURE THE EUROPEAN INFLUENCE ON THE EVENTS AND TO SCRUTINIZE EVERY POSSIBILITY OF USING WITH A STABILIZING PURPOSE THE POTENTIAL ECONOMIC STRENGTH OF EUROPE.

THE WAY OF SETTING THE ACCENT ON EITHER OF THE TWO WORDS IN MY INTERROGATIVE TITLE, AFFORDS A NATURAL DIVISION OF MY SPEECH IN TWO PARTS.

I SHALL FIRST EXAMINE THE "WHY NOT". I MEAN BY THAT THE REASONS OF THE INHERENT DIFFICULTIES OF THE PROBLEM.

AFTER THIS AND SWITCHING THE ACCENT ON THE "NOT", THE "WHY NOT" QUESTION APPEARS AS A KIND OF CHALLENGE TO OVERCOME THESE DIFFICULTIES IN VIEW OF A FINAL BETTER ORDER OF THINGS.

SOME 13 YEARS AGO SPEAKING OF CLOSER MONETARY TIES INSIDE THE E.E.C. HAD BECOME OF ACTUAL INTEREST, SUDDENLY THE GOVERNMENTS OF THE SIX BECAME AWARE OF THE INSUFFICIENT FORESIGHT AND PROVISIONS OF THE TREATY OF ROME IN MONETARY MATTERS. THIS INSUFFICIENCY WAS IN SHARP CONTRAST WITH THE AMBITIONS AND FAR-REACHING GOALS OF THE TREATY AS FAR AS THE LIFTING OF TRADE RESTRICTIONS BETWEEN THE MEMBER-STATES, THE COMMON TRADE POLICY TOWARDS THIRD COUNTRIES, THE HARMONIZATION OF ECONOMIC AND FISCAL POLICIES WERE CONCERNED, NOT TO SPEAK OF THE CONSTRAINTS OF THE UNIFIED PRICE SYSTEM FOR AGRICULTURAL GOODS.

SO FAR THIS WEAKNESS OF THE COMMUNITY POLICY HAD NOT SERIOUSLY EMERGED, BECAUSE THE REIGN OF THE BRETTON WOODS SYSTEM OF FIXED PARITIES SUPPORTED ALSO BY THE "EUROPEAN PAYMENTS UNION" DRAWN FROM THE MARSHALL PLAN, AFFORDED A DECENT STABILITY OF INTERNATIONAL MONETARY RELATIONS.

BUT THE PEACE OF BRETTON WOODS WAS DRAWING TO ITS END AND THE RULINGS OF THE INTERNATIONAL MONETARY FUND, WHICH WERE SUPPOSED TO MAINTAIN ORDERLY EXCHANGE RELATIONS ON A WORLDWIDE LEVEL WERE MORE AND MORE QUESTIONED.

SINCE 1967 THE CALM ON THE MONETARY FRONT WAS DISTURBED.

THE GOVERNMENTS OF THE SIX FELT THAT THE GROWING INFATUATION FOR FLOATING EXCHANGE SYSTEMS, COULD JEOPARDIZE THEIR CONTINUOUS EFFORTS TO FIGHT

DISCRIMINATORY PRACTICES AND FAIR DEALINGS BETWEEN THE NATIONAL ECONOMIC SYSTEMS, WHICH WERE WIDELY LIBERALIZED.

OF COURSE THE TREATY OF ROME HAD NOT COMPLETELY IGNORED THE EVENTUALITY OF MONETARY DISTURBANCES AND CRUMBLING NATIONAL EXCHANGE SYSTEMS, BUT ITS PROVISIONS ACTUALLY INTENDED MORE TO SHIELD INDIVIDUAL MEMBER-COUNTRIES AGAINST THE DIRECT IMPACT OF DISTORTING MONETARY PRACTICES, RATHER THAN TO ACTIVELY RESTORE SOUND RELATIONSHIPS, THUS FALLING BACK FROM THE FUNDAMENTAL LIBERALIZING PHILOSOPHY OF THE COMMON MARKET.

IT IS IMPORTANT HOWEVER TO STRESS THAT ARTICLE 107 OF THE TREATY HAD PRACTICALLY RECOGNIZED THE EXISTENCE OF A PROPER COMMUNITY INTEREST TO BE OBSERVED IN SHAPING MONETARY POLICY.

AS A MATTER OF FACT, THE ARTICLE READS THAT "EVERY MEMBER-STATE HANDLES ITS EXCHANGE - RATE POLICY AS A PROBLEM OF COMMON INTEREST," THE NATIONAL INTEREST OUGHT NOT TO EXERT AN ABSOLUTE RULE.

IN DECEMBER 1969, THE HEADS OF STATE OR GOVERNMENTS, MEETING IN THE HAGUE ASKED THE COUNCIL OF MINISTERS TO WORK OUT IN COOPERATION WITH THE COMMISSION A SCHEME IN VIEW OF THE CREATION BY STAGES OF AN ECONOMIC AND MONETARY UNION WITHIN THE COMMUNITY. ON MARCH 6TH, 1970, THE COUNCIL OF MINISTERS SET UP A SPECIAL STUDY GROUP. AS PRIME MINISTER AND MINISTER OF FINANCE OF LUXEMBOURG, WHO HAD ALREADY SINCE YEARS ADVOCATED MONETARY UNION, I WAS ASKED BY THE COUNCIL TO PRESIDE OVER THESE STUDIES GIVING THEM BY THIS WAY THE DESIRABLE POLITICAL TOUCH.

MY INTENTION IS NOT TO RECALL TO YOU THE WHOLE STORY OF THE REPORT TO WHICH MY NAME HAS BEEN LINKED. LET ME ONLY SAY THAT AFTER SIX MONTHS OF THOROUGH INVESTIGATIONS AND CROSS EXAMINATIONS DURING WHICH THE

MONETARIST AND ECONOMIST APPROACH WERE OFTEN AT GRIPS, WE ISSUED A REPORT RESPONDING ACCURATELY TO THE MANDATE GIVEN BY THE HAGUE SUMMIT MEETING.

THE PURPOSE OF THE GOVERNMENTS HAD BEEN TO GIVE THE COMMUNITY A NEW START BY A LOGICAL AND GRADUAL DEVELOPMENT OF AIMS AND POLICIES THROUGH THE STRUCTURING AND COORDINATING POWER OF COMMON MONETARY POLICIES AND, IN THE FINAL STAGE, OF A COMMON EUROPEAN CURRENCY SYSTEM.

HAILED BY THE FERVENT MILITANTS FOR EUROPEAN INTEGRATION FOR ITS UNFALTERING DESCRIPTION OF THE INSTITUTIONAL ASPECTS OF A FULLY COMPLETED ECONOMIC AND MONETARY UNION, THE SAME ASPECT MADE A LOT OF POLITICIANS RAISE EYEBROWS ON WHAT THEY CONSIDERED AS TO BOLD A SUPRANATIONAL THRUST.

NEVERTHELESS IN 1971 AND 1972 THE COUNCIL OF MINISTERS DECIDED TO GO AHEAD FOR A FIRST STAGE WITH A BALANCED ECONOMIC AND MONETARY PROGRAM. ON THE MONETARY SIDE, IT INITIATED A MECHANISM KEEPING THE FLUCTUATIONS OF THE CURRENCIES OF THE MEMBER-STATES WITHIN NARROWER MARGINS THAN THOSE APPLICABLE ACCORDING TO THE ARTICLES OF AGREEMENT OF THE IMF WITH THIRD CURRENCIES AND ESPECIALLY THE US \$ 51. THIS IS THE BIRTH OF THE SO-CALLED MONETARY SNAKE, WHICH IN SPITE OF ITS AGITATED AND VARIABLE FATE HAS HAD ENOUGH VITALITY TO LEND STILL ITS MODEL TO THE PRESENT EUROPEAN MONETARY SYSTEM.

THE FIRST STAGE OF THE SCHEME LARGELY CONSIDERED AS AN EXPERIMENTAL THREE YEAR PHASE WITHOUT FUNDAMENTAL INSTITUTIONAL CHANGES, WAS SUPPOSED TO END IN DECEMBER 1973. IT TOOK A RATHER JOLTING COURSE AFTER THE FIRST SIX MONTHS. THE YEAR 1971 IS MARKED AS A MATTER OF FACT BY DEEP GOING COMMOTIONS IN THE INTERNATIONAL MONETARY SYSTEM DUE TO THE PROGRESSIVE

WEAKENING OF THE DOLLAR.

IN MAY 1971 THE DEUTSCHMARK AND THE DUTCH GUILDER BEGAN TO FLOAT AGAINST THE DOLLAR, ON AUGUST 15TH, PRESIDENT NIXON SUSPENDED THE CONVERTIBILITY IN GOLD OF THE AMERICAN CURRENCY, IN DECEMBER THE SMITHSONIAN AGREEMENT DEVALUED THE DOLLAR BY 7.89 %. THESE AND OTHER EVENTS DID NOT OFFER THE CALM BACKGROUND NEEDED FOR THE FIRST STEPS OF THE SIX ON THE ROAD TO MONETARY INTEGRATION, ALTHOUGH, AS MY CONVICTION WAS, THEY MIGHT HAVE ACTED AS A CHALLENGE AND PROVOKED A JUMP IN THE REACTION OF THE MEMBER-COUNTRIES.

THIS LEADS ME TO THE FIRST "WHY".

WHAT ARE, PUTTING ASIDE THE CITED EPISODES, THE INHERENT DIFFICULTIES OF MONETARY INTEGRATION.

THE FIRST OF COURSE IS THE STRONG ATTACHMENT NOT ONLY OF THE STATESMEN BUT ALSO OF THE MEN IN THE STREET TO THE SOVEREIGN RIGHT OF ISSUING COINS AND OTHER LEGAL TENDERS UNDER A NATIONAL AUTHORITY.

AS FAR AS THE SYMBOLIC VALUE OF NATIONAL COINS AND BANKNOTES IS CONCERNED, A MONETARY UNION DOES NOT NECESSARILY MEAN THEIR ABOLITION.

WHAT IS MORE FUNDAMENTAL IS THE HANDLING OF THE NATIONAL CURRENCY SYSTEM AS A WHOLE, THE PULSATION OF THE CREDIT OPERATIONS PILED UPON IT, THE MOVEMENTS OF THE MONEY-STOCK IN ALL ITS SHAPES.

THE MODERN STATE HAS THE MEANS OF CREATING, DESTROYING OR REDUCING PURCHASE POWER ACCORDING TO VARIABLE METHODS.

WITHOUT ANY DOUBT, A COMPLETE MONETARY UNION ENTAILS A COMMON CONTROL OF THE QUANTITY OF MONEY. IT IMPLIES ESPECIALLY A COMMON APPROACH TO THE FIGHT AGAINST INFLATION.

THESE TWO REQUIREMENTS AT FIRST SIGHT CUT DEEPLY INTO NATIONAL POLICIES. ON THE OTHER HAND BUDGETARY AND GENERALLY FISCAL POLICIES ARE LARGELY INFLUENCED BY THE MANAGEMENT OF THE NATIONAL CURRENCY SYSTEM. A CERTAIN CONSENSUS ON THE WAY BUDGETARY DEFICITS OUGHT TO BE FINANCED WOULD BE NECESSARY. AS A MATTER OF FACT, IF FINANCE MINISTERS WITH THE HELP OF THE COMMISSION, COULD BE INDUCED TO AGREE ON GENERAL GUIDELINES ABOUT THE APPROPRIATE MEANS OF BALANCING NATIONAL BUDGETS AND SETTING LIMITS TO MERE MONETARY EXPANSION FOR BUDGETARY REASONS, HARMONIZATION OF POLICIES WOULD HAVE MADE A MAJOR PROGRESS.

HARMONIZATION OF ECONOMIC POLICIES MEANS ALSO ACHIEVING A COMPROMISE BETWEEN THE ECONOMIST APPROACH, WHICH EXCLUDES A MONETARY SET-UP BEFORE THE RESULTS OF A LARGE COHESION ON POLICIES HAVE BECOME CONSPICUOUS AND THE MONETARIST APPROACH, WHICH IS CONVINCED THAT THE ACHIEVEMENT OF COMMON POLICIES DEPENDS LARGELY ON MONETARY INCENTIVES. MAY I RECALL IN THIS RESPECT THE SLOGAN MISTER JACQUES RUEFF HAD FORGED ALREADY IN 1949 SAYING : "L'EUROPE SE FERA PAR LA MONNAIE OU NE SE FERA PAS," WHICH MIGHT BE TRANSLATED INTO SHAKESPEARIAN TERMS : "TO BE OR NOT TO BE FOR EUROPE MEANS TO ENGAGE IN OR TO ABSTAIN FROM MONETARY UNION."

INFLATION AND EMPLOYMENT ARE NOWADAYS THE TWO MAIN MATTERS OF CONCERN AND ANGUISH FOR GOVERNMENTS AND CITIZENS. THEIR MUTUAL INTERACTION IS A MATTER OF HOT CONTROVERSY BETWEEN ECONOMISTS. CAN THIS DOUBLE FIGHT BE WAGED AT THE SAME TIME WITH POSITIVE RESULTS. THAT IS ONE OF THE GREAT THEMES OF INTERNATIONAL DISCUSSION GOING ON.

MAY I QUOTE IN THIS CONNECTION THE OPINION OF A BRITISH ECONOMIST MISTER DAVID T. LLEWELLYN, WHO ADVOCATES IN PRINCIPLE MONETARY UNION. HE SAYS : "THE DURABILITY OF ANY FIXED EXCHANGE RATE WILL BE DETERMINED, IN NO SMALL PART, BY THE WILLINGNESS OF HIGH INFLATION COUNTRIES TO ACCEPT THE SHORT RUN EMPLOYMENT COSTS OF THE NECESSARY MONETARY ADJUSTMENT. THE LONG RUN RESULTS WILL BE THE MORE ASSURED,

THIS IS OF COURSE A MATTER OF STRONG POLITICAL WILL, INSPIRED BY AN ENLIGHTENED UNDERSTANDING OF THE MODERN WORLD'S UNITY OF FATE.

SOME INSTITUTIONAL ASPECTS PROPOSED BY THE 1970 REPORT OF ECONOMIC AND MONETARY UNION, HAVE RAISED MUCH DUST AT THAT TIME. IT HAD BEEN UNDERLINED IN THE REPORT THAT MONETARY UNION INVOLVES EFFICIENT CENTERS OF DECISION-MAKING ON OVERALL ECONOMIC AND MONETARY POLICY. LATER ON THE INTELLECTUAL CONTENT OF THIS CLAIM WAS DROWNED SOMEWHAT IN THE CONCEPT OF EUROPEAN UNION.

THIS ASPECT RAISES THE WHOLE PROBLEM OF THE ADEQUACY AND EFFICIENCY OF THE COMMUNITY INSTITUTIONS, ESPECIALLY IF WE TAKE INTO ACCOUNT A FURTHER ENLARGEMENT OF THE MEMBERSHIP.

SO MANY HANDICAPS CAN THEY BE OVERCOME? IS THERE ANY FUTURE IN MONETARY UNION?

EXPERIENCE SHOWS THAT THE LOGIC BEHIND THE AIM OF A MONETARY ORDER INSIDE A COMMON MARKET, IS SO STRONG, THAT IT CANNOT CONSTANTLY BE ELUDED.

THIS WAS RECOGNIZED BY THE EUROPEAN COUNCIL MEETING AT BREMEN ON JULY 7TH, 1978, WHEN THE HEADS OF GOVERNMENTS DECIDED TO LAUNCH A NEW EUROPEAN MONETARY SYSTEM. SINCE MARCH 1979, THIS SYSTEM IS WORKING AMONG A CERTAIN NUMBER OF MEMBER-COUNTRIES AND IN SPITE OF HEAVY DOUBTS AT THE OUTSET,

IT HAS BEEN ABLE TO CONTRIBUTE TO THE STABILITY OF THE ECONOMIES OF THIS GROUP OF COUNTRIES. BASED ALSO FUNDAMENTALLY ON A PERMISSIBLE MARGIN OF FLUCTUATIONS BETWEEN EXCHANGE-RATES, IT SHOWS SOME IMPROVEMENTS WITH RESPECT TO THE FORMER "SNAKE", PUTS THE ECU AT THE CENTER OF THE SYSTEM AND AFFORDS CONSIDERABLE LARGER CREDIT FACILITIES WITHIN IT.

IT IS NOT MY PURPOSE TO DESCRIBE THIS SYSTEM WHICH AS SUCH CONSTITUTES A FIRST STAGE IN A MORE AMBITIOUS SCHEME, LEADING TO A EUROPEAN MONETARY FUND WITH LARGE POWERS IN MONETARY POLICY.

IT SHOWS THAT THE "WHY NOT" HAS ALREADY RECEIVED A LIMITED RESPONSE.

THE RECRUDESCENCE OF A MONETARY DESIGN WAS CERTAINLY DUE TO A SHIFT OF THINKING FLOWING FROM ACTUAL EXPERIENCE.

THE INCRIMINATED LOSS OF SOVEREIGNTY INFERRED BY COMMON ACTION IS NO LONGER CONSIDERED AS STANDING IN THE WAY.

THE INTERDEPENDANCE OF THE ECONOMIES RESULTING FROM A NON-DISCRIMINATORY TRADE RELATIONSHIP, REINFORCED BY COMMON POLICIES, LEADS TO A CORRESPONDING INTERDEPENDANCE OF MONETARY POLICIES. AS EVENTS SHOW, THE VALUE OF A CURRENCY, THOUGH DETERMINED BY THE ECONOMIC PERFORMANCE OF THE NATIONAL ECONOMY, IS LARGELY DEPENDENT ON THE POLICY AND BEHAVIOUR NOT ONLY OF THE NEIGHBOUR, BUT ON THE WHOLE INTERNATIONAL ENVIRONMENT.

MONETARY SOVEREIGNTY IS NO LONGER ABSOLUTE, BECAUSE THE FREE WILL OF AUTHORITIES IS PERMANENTLY OVERRUN BY INDOMITABLE EVENTS. TAKE FOR INSTANCE THE CONTESTED INFLUENCE OF HIGH INTEREST RATES IN THE U.S.A. ON THE GROWTH OF THE EUROPEAN ECONOMIES.

THE POOLING OF SOVEREIGN RIGHTS IN CURRENCY MATTERS IS CERTAINLY NOT EQUIVALENT TO THEIR LOSS. COLLECTIVE ACTION IS ON THE CONTRARY ABLE TO RESTORE A GREAT PART OF IT FOR EVERY ONE.

ON THE OTHER HAND, THE INFLATION ISSUE HAS ALSO PROVOKED NEW INSIGHTS. THE SO-CALLED STAGFLATION, WHICH PREVAILED FOR SEVERAL YEARS, SHOWS THAT STAGNATION AND INFLATION CAN COEXIST, AND THAT THE LATTER DOES NOT NECESSARILY BEGET FULL EMPLOYMENT.

HARMONIZATION OF ECONOMIC AND BUDGETARY POLICIES, THOUGH STILL NOT EASY, HAS MADE SOME INVOLUNTARY PROGRESS, AS FACTS ARE STRONGER THAN GOVERNMENTS. IF YOU LOOK AROUND EUROPE, YOU WILL NOTICE THAT RECENTLY PRACTICALLY ALL THE GOVERNMENTS HAVE DRAWN THEIR CONCLUSIONS FROM THE CONTINUED CRISIS SITUATION AND ARE PRACTICING OR TRYING TO PRACTICE MORE RIGOROUS POLICIES. THE RESULT IS THAT INFLATION RATES HAVE DROPPED. THE GENERAL AIM SEEMS TO GET AT LEAST BELOW 10 %. ON THE OTHER HAND THE EUROPEAN MONETARY SYSTEM CAN TOLERATE SOME DISCREPANCY BETWEEN INFLATION RATES (PERHAPS 4-5 %), AS THE EXCHANGE RATE IS INFLUENCED ALSO BY OTHER ECONOMICAL AS WELL AS POLITICAL FACTORS.

THE FEELING IS INCREASING THAT A NEW PATTERN OF GROWTH, AFTER THE CURRENT ADJUSTMENTS CAN ONLY SUCCEED IF, AS WELL ON A WORLDWIDE LEVEL AS ON THE EUROPEAN FRONT, A GREATER STABILITY AND CONFIDENCE CLIMATE CAN BE DEVELOPED.

IN THIS RESPECT WE MUST ADMIT THAT THE EUROPEAN COMMUNITY HAS NOT REACHED SUFFICIENT COHESION ENABLING IT TO SUPPLY A DECISIVE CONTRIBUTION TO A BETTER WORLDWIDE ECONOMIC AND MONETARY ORDER.

AS SUCH ^{THE} COMMUNITY IS STRONG ENOUGH TO CREATE A EUROPEAN CURRENCY

SYSTEM CAPABLE OF TAKING UPON ITSELF PART OF THE BURDEN OF THE PREVAILING RESERVE CURRENCY, THE U.S.A. DOLLAR. THE COMPETITION BETWEEN TWO STRONG CURRENCY SYSTEMS, WILL COMPEL THE UNITED STATES AS WELL AS EUROPE TO MANAGE THEIR CURRENCIES ON STRICTER AND MORE COORDINATED LINES, EXTERNALLY AND INTERNALLY, CREATING ALTERNATIVES OF STABILITY FAVOURABLE TO ECONOMIC EXPANSION THROUGHOUT THE WORLD. THE REAL VALUE OF THE DOLLAR WOULD NOT SUFFER FROM IT. ON THE CONTRARY, PRESENTLY THE RATHER UNPARALLELED RESERVE CURRENCY, TENDS TO BE RATED TO MUCH ON POLITICAL AND SPECULATIVE GROUNDS.

ON THE WHOLE THE EUROPEAN COUNTRIES BY STRENGTHENING THEIR COMMON MONETARY SYSTEM CAN FREE THEMSELVES FROM DISTURBING OUTER INFLUENCES AND AT THE SAME TIME CONSOLIDATE WHAT HAS BEEN SO FAR THE ACQUIRED ACHIEVEMENTS OF THE COMMON MARKET.

IT IS OF COURSE FUNDAMENTALLY A PROBLEM OF POLITICAL INSIGHT AND WILL.

I AM AWARE NOW THAT I AM PLEADING AGAIN, LEAVING MY NEUTRAL APPROACH.

IT MAY STILL BE A LONG WAY TO ECONOMIC AND MONETARY UNION.

IT IS THEREFORE THE MORE IMPORTANT TO STRENGTHEN AND COMPLETE THE EXISTING EMS.

SEVERAL LINES OF PROGRESS HAVE BEEN ADVOCATED AND SHOULD BE FOLLOWED.

IN THE SHORT RUN WE SHOULD:

- IMPROVE THE POLICY COORDINATION TOWARDS THE DOLLAR BY SETTING UP A FECCOM - FED (FONDS EUROPÉEN DE COOPÉRATION MONÉTAIRE - FEDERAL RESERVE

SYSTEM) SWAP CREDIT LINE, GIVING MORE STABILITY TO THE DOLLAR VIS-À-VIS THE EUROPEAN CURRENCIES,

- ENLARGE THE ROLE OF THE ECU (EUROPEAN CURRENCY UNIT) BY DROPPING THE EXISTING ACCEPTABILITY LIMITS ON ITS USE BETWEEN CENTRAL BANKS AND BY ENCOURAGING ITS PRIVATE USE. THE PRIVATE USE HAS ALREADY BEEN DEVELOPED IN RECENT MONTHS IN FUND RAISING AND BANK ACCOUNTS.

THE BELGIAN GOVERNMENT HAS PROPOSED ON ITS SIDE TO SECURE A BETTER CONVERGENCE AMONG MEMBER COUNTRIES' ECONOMIC PERFORMANCES, IN PARTICULAR BY DEVISING AND USING A "DIVERGENCE INDICATOR" FOR INFLATION RATES, WHICH WOULD INDICATE WHEN INFLATION OUGHT TO BE HALTED BY APPROPRIATE POLICIES.

IN THE LONGER RUN THE FECOM CREATED IN 1973 SHOULD BE CONVERTED INTO A EUROPEAN MONETARY FUND.

WHEN DISCUSSING THE STRENGTHENING OF THE EMS, ONE CANNOT ESCAPE THE PROBLEM OF THE POUND STERLING.

MAY I RECALL THAT THE UNITED KINGDOM HAS APPROVED IN 1978 THE FOUNDATION OF THE EMS. THE POUND STERLING IS ONE OF THE CURRENCIES OF THE BASKET FORMING THE ECU, BUT THE BRITISH GOVERNMENT DID NOT CONSIDER IN 1978 THAT THE ECONOMIC CONDITIONS IN THE COUNTRY WERE SUCH THAT IT COULD IMMEDIATELY JOIN THE INTERVENTION MECHANISM.

NOW, MANY THINGS HAVE CHANGED SINCE 1978. FOR INSTANCE, THE REDUCTION OF THE INFLATION RATE HAS BEEN SPECTACULAR SINCE THEN.

MUCH OF WHAT HAS BEEN SAID OF THE ADVANTAGES OF MONETARY COOPERATION APPLIES OF COURSE ALSO TO GREAT BRITAIN.

I KNOW VERY WELL THAT JOINING THE EMS MEANS SOLVING DELICATE PROBLEMS OF APPROPRIATE CONDITIONS AND SETTING THE RATE.

BUT I CAN ONLY EXPRESS THE WISH THAT STERLING JOIN THE SYSTEM AS SOON AS POSSIBLE UNDER APPROPRIATE CONDITIONS. MUCH OF WHICH I SAID OF THE POSSIBLE PRESTIGE OF A EUROPEAN CURRENCY SYSTEM, DEPENDS ON THIS IMPORTANT STEP.

PERHAPS SOME OF YOU WILL CONSIDER THAT ALSO THIS PROPOSAL IS UNTIMELY AS OTHER DESIRABLE STEPS MENTIONED IN MY SPEECH.

BUT WHY SHOULD WE NOT THINK ABOUT THE WHOLE AND PONDER HOW AND UNDER WHAT CONDITIONS THE UNTIMELY COULD BE MADE TIMELY.

I MUST REPEAT HOWEVER THAT THE FULL BENEFIT OF MONETARY UNION CAN ONLY BE EXPECTED IF THE COMMUNITY ON THE WHOLE TAKES CONSCIENCE OF THE PRESENT DANGERS CONSISTING OF A RETURN TO PROTECTIONISM AND ADULTERATION OF THE COMMUN MARKET'S GOALS AND PRINCIPLES.