Conference given by Roy Jenkins (Bruxelles, 6 November 1978)

Caption: On 6 November 1978, Roy Jenkins, President of the European Commission, speaks to the Belgian Royal Society for Political Economy on the key events in the development of European monetary affairs and welcomes the recent establishment of the European Monetary System (EMS).

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It is a great honour to be invited to speak by your Society, one of the most renowned in this country.

The list of previous speakers is an indication of the quality of your membership. Your Society has played a significant role in the evolution of ideas in this country, and has always given opportunity for important matters to be constructively discussed and made it possible for various ideas to be considered in an unprejudiced atmosphere. That is why today I should like to speak to you on the subject I regard as offering the most promising prospect of advance this year.

However, to ask the question of what are the chances for progress in the monetary field in Europe is still a delicate exercise, particularly in the present circumstances and before such an informed and expert audience. As you know, I sought in a speech in Florence just over a year ago to bring the issue of monetary union back into the forefront of public discussion. Since then, although obviously not solely on that account, a good deal has happened. We now find ourselves in the Community in a position to take a major step forward in the monetary field. The need for this is one of my most profound convictions.

However, to understand what is happening today we have to look at what has happened, or not happened, in the past. Earlier attempts at monetary union both in Europe and elsewhere are instructive. They go back to the time when money itself began to be used as a medium of exchange. From the beginning, control of money has been regarded as a prime aspect of national sovereignty. This underlies the great political delicacy of all attempts to bring national moneys together and perhaps explains why such attempts have mostly failed in the past.

The Treaty of Rome was much concerned with the basic issues of sovereignty. But it does not speak of monetary union, only of the need for “coordination of national policies” in this area. I think there were two main reasons for this neglect of such a basic issue. First, at the time it was apparently believed that economic and monetary union would be the natural and inevitable consequence of other measures — for example the creation of the Common Market itself — which were laid down in the Treaty as the principal means towards an eventual European union. Second, the international monetary system of the late 1950s was relatively stable. In Europe, the European Payments Union provided a satisfactory method of settlements. It was built within the framework of the Bretton Woods system which had and continued to serve the world as a whole very effectively. Moreover, inflation at that time was modest and its relatively minor impact was regarded as an acceptable fact of economic life.

By 1969 the situation had fundamentally changed. We then had the first Barre plan.

This led to the agreement of the Council of Ministers to set work in hand for the conclusion of an economic and monetary union.

Why had this change occurred? First, despite the undoubted progress that had been made in the creation of the Common Market and freedom of movement within it, those in positions of responsibility for the Community began to recognise that economic integration was not an inevitable consequence. Second, while the Bretton Woods system was still functioning, it had suffered from some severe shocks. There was the devaluation of sterling in 1967, the devaluation of the French franc in 1969, and the revaluation of the deutschmark. More important in a world context was perhaps the vast expenditure to finance the Vietnam war, so that the pivot of the international monetary system — the US dollar — was subject to increasing *international* strain through its excessive use for *national* purposes. Third, we were then beginning a period of accelerated inflation which, while by no means at its height, was unknown ten years before.

The result of the discussions of the Council of Ministers was the Werner Plan of October 1970. This Plan, constructed within the Bretton Woods system of fixed parities, defined the substance of a European economic and monetary union in terms of convertibility of Community currencies with immutable parity rates, their replacement by a sole Community currency; the centralisation of monetary and credit policy, and a common Community attitude to monetary policy in relation to the outside world; and the Community was

to decide on the essential features of public budgets. I have summarised only the main points of the Plan, but enough to show how far it went. In March 1971 it was agreed to proceed stage by stage towards fulfilling its objectives.

There then followed a series of parallel decisions which may to us, some years later, and with the benefit of hindsight seem mutually inconsistent. On 15 August 1971 President Nixon ended dollar convertibility into gold. The Smithsonian Agreement followed and the world monetary system began its descent into the organised confusion which we have since known so well. But these events did not at that time hold Europe back. Early in 1972 the Six, joined by the three prospective new members, entered the snake and the formal decision was taken at the Paris Summit of October 1972 to confirm the decision to work towards a staged economic and monetary union. But the time did not prove right for a sustained advance in the direction hoped for. The forces pulling apart were too strong. The decision then announced was followed by meagre results which created a sense of disillusion and disappointment. There was little coordination of economic policies. On the monetary side there was a series of smaller ingenious shifts in the system. First the snake in the tunnel, then the snake by itself, and then a snake reduced to the dimension of a deutschmark zone. In addition the role which many hoped the newly created Social and Regional Funds would play was never really permitted to materialise, and they still remain pitifully small and inadequate in terms of the tasks and challenges which confront us.

There are a number of lessons which we in the Community, in setting forth along a different path to the same objective, can learn from the failure of the Werner Plan. First, there is the central issue of sovereignty and overall management of the system. There was no disposition among the Member States after 1972 to face up to this problem. There was an assumption that Europe would somehow progress naturally and inevitably into a more or less automatic central management of an economic and monetary union. It is worth noting that three major attempts at monetary union in the 19th century also failed for this among other reasons: the Austro/German Union of 1857-1866; the Latin Monetary Union of 1865-1878; and the Scandinavian Monetary Union of 1875-1917, which did better than the others but also lacked the central authority that could have enabled it to stand up to the shocks of the First World War. Failure to face this question in 1972 led to the failure to create a common reserve fund, which could have been used to support the weaker currencies. We have not avoided, and will not avoid this complex of issues this time round.

Second, it is reasonable to argue that the Werner Plan was born optimistically but was given little chance to survive because of the disruptions which followed between 1971 and 1974. Member States felt obliged to try to cope with external shocks on a national basis. Coordination of policies became a less important priority. Inflation rates got more and more out of line (hence the shrinking snake) and there was no determined attempt to forge the necessary instruments to tackle growing economic imbalance within the Community.

It is against this historical background — but also against the background of failure to solve our economic problems on a national basis and of the more than ever manifest inadequacy of the dollar as the sole major medium of international exchange — that we are today pursuing more determinedly than ever before a zone of monetary stability in Europe. When I spoke at Florence a year ago, I sought to base my arguments on the belief that monetary arrangements both inside and outside Europe had not caught up with the changing reality of economic and monetary life. They were simply not working. The existence of strongly divergent currencies within the close-knit area of Western Europe, which was supposed to be a full economic Community, was immensely damaging. Although floating exchange rates do offer some advantages at least between continents, as we saw indeed from the role they played in the search of a solution to the international monetary crisis which started in 1971, they also affect the ability of national governments to run economic policies with discipline and consistency. The effect on the investment plans for private and public companies was clear. This fundamental malaise in the non-system that has prevailed underlines our problems of relatively poor productivity, poor rates of growth and high unemployment. Surrounding this analysis of the European scene was the concurrent decline in the value of the dollar.

We in Europe have done more than was, and perhaps still is, realised to maintain the dollar’s value by holding more dollars than we needed. This had sharp negative effects on the ability of European

governments to control their own money supply and to manage their national economies. In March of this year I wrote to the Heads of State and Government of the Community saying “there is a fundamental asymmetry about the United States having withdrawn from the responsibilities of Bretton Woods, while dollars, like legions without a central command, continue to dominate the currency transactions of the world.”

In December of last year the European Council at Brussels received from the Commission a five-year plan which included certain practical measures designed to lead to economic and monetary union. A fair wind was given to these proposals, but the next, and in my view the most important step was the growing interest of the Federal German Chancellor, strongly supported by others, notably the President of the French Republic, at the April European Council, when these two men added their political authority to the thrust for new steps to be taken towards a European Monetary System. Between April and July of this year, between the Councils of Copenhagen and Bremen, a good deal of work was done and the political agreement to move forward was summed up in the annex to the Bremen declaration, setting out the essentials of a European Monetary System. The features of that system will be well known and understood by this audience and I will not repeat them here.

It is inevitable that a plan as ambitious as the one now under discussion gives rise to doubts and hesitations, especially from those who, seizing on some of the lessons and indeed shocks of the past, do not wish to throw themselves lightly into a new but possibly risky venture. The reticence of some countries, perhaps of my own in particular, is to some extent understandable, but still mistaken, when one thinks of the difficulties and the political and psychological impact of a fresh failure. The short experience in the snake of Britain and Ireland, who left the system in June 1972, and of Italy, who had to abandon it in February 1973, and the two departures from the system by France, shows the importance of much stronger political will, greater financial backing, and greater coordination of economic policies than existed in those days.

Therefore, *in the first place*, the system must be an *expression of solidarity* and it must be a solidarity not simply in the monetary field but in the coordination of economic policy, intra-Community trade, in the Common Agricultural Policy, and in industry. Having said this I do not believe that the only effective way to underpin a monetary system is first to solve all our outstanding problems in these fields. That would be impossible and unrealistic. On the contrary, I do not believe we shall be capable of solving the problems in these fields unless sectoral policies can be applied in a more stable economic and monetary environment.

Secondly, the system must create its own credibility. It is essential that the new machinery demonstrates that it has *adequate funds*. The perspective opened at Bremen of creating a reserve system with 20 per cent of gold and dollar reserves of Member States and, in addition, when the Fund is set up, 20 per cent of national currencies, should therefore be vigorously supported.

The European Monetary System must not only be an improved technical mechanism for intervention by central banks, nor should it rest locked into technicalities that only economists, bankers and other specialists can comprehend. Thus I do not believe that we should allow present discussions, necessary though they are, about technicalities to hide the real political choice which the Bremen Council put forward. Before the next European Council in Brussels, the fundamental economic and political nature of the decision must be grasped not just by politicians but by the public as well.

Thirdly, the system must be acceptable and workable. The members of the new system equally need to have the assurance that their membership of such a system will not impose on them unacceptable political or economic constraints. In other words, countries in relative economic or monetary difficulty must be able to find within the system itself justification in the long term for their entry into it. If the system can be so constructed as to provide such assurances then it can undoubtedly lay the foundations for a much more integrated Community policy throughout all sectors.

These three conditions, expression of solidarity, credibility and the ability to be easily managed, are the main issues now under discussion within the interested bodies of the Community. Of course, these discussions are highly technical and sometimes difficult to follow.

Nevertheless, I believe that the work which is now being done has produced the basic choices from which political decisions are emerging. In this respect, it is a pleasure for me to underline the role played by the Belgian members of the various committees, whose unwearying efforts towards finding solutions or compromises are always made with both enthusiasm and courage. I make particular mention of the President of the Monetary Committee, Mr van Ypersele, and the President of the Central Bank of Governors, Mr de Strijcker.

Their efforts to find the solution by which the Community will avoid the failures of the past are outstanding, and if, as I hope and believe, we succeed in our endeavour, they will deserve a very large share of the credit.

I am convinced that we can construct a monetary system which avoids failures of the past. For I believe we have at long last recognised the real fragility that exists both in the international monetary system and in our internal Community arrangements. There is never a perfect moment to launch any new scheme. The arguments for procrastination are always persuasive.

Nevertheless the arguments to move now on 1st January are, to my mind, overwhelming. The rhythm of inflation is declining in all our countries, while the convergence of our economies is greater than in the past. Even more fundamentally, the necessity to deal with the intractable problems of unemployment underlines the need to put forward radical ideas on stability and growth of our economies. The imminent enlargement of the Community forces us to act now and not delay.

If we can seize this moment, make a firm decision at Brussels in December on a Community monetary system to which all Member States can be parties and from which all can derive benefit, we can take a greater step towards the integration of the Community than has been possible for twenty years past.

As Shakespeare made Caesar say:

“There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune.”

I believe that tide is now at the flood. We must not miss it.