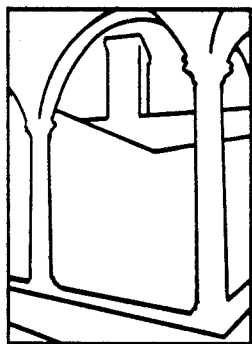


Second Jean Monnet Lecture

by the President of the European Parliament
Mr. Emilio Colombo

The decisions facing Europe

Florence, 9 November 1978



European University Institute

SPEECH BY MR. MAX KOHNSTAMM

Principal of the European University Institute

Dear Mr. President, Ladies and Gentlemen,

It is both a pleasure and an honour to welcome you here this evening. We are grateful that you have been able to accept our invitation to come to the second Jean Monnet Lecture, which the President of the European Parliament, Emilio Colombo, has kindly agreed to deliver today, on Mr. Jean Monnet's 90th birthday.

We are deeply grateful, Mr. President, that you have agreed to come here today. There is no need to introduce you to an audience which, while it has not hitherto had the pleasure of making your acquaintance personally, knows how well you have deserved of your country and of the European Community. I shall not mention all the posts you have held in various governments. I should like only to recall that for ten years you bore the heavy responsibilities of Minister for the Treasury, before becoming, for two years, head of government. For two years you have chaired the European Parliament, and in a few months you will have the great satisfaction of seeing it elected by direct universal suffrage. The holding of these elections is largely thanks to the efforts of the Parliament over which you preside and to your personal efforts in your high office.

I do not wish to make all those who have come here to hear you wait any longer, Mr. President. I should like only to read you the telegram we have just received from Mr. Jean Monnet:

“ At the time when you are gathering to listen to Mr. Emilio Colombo, I wish to tell you that my thoughts are with you and that I wish the greatest possible success to this meeting held under the auspices of your European Institute. Since Mr. Roy Jenkins' lecture last year new progress has been made towards the monetary union in which he had called on our countries to come together. Now it is the direct elections to the European Parliament that are the next great step for us to take together. Please pass my best wishes to my friend Emilio Colombo, who chairs that Parliament with great authority, and my greetings to your guests today.

Yours most cordially,

JEAN MONNET ”

TELEGRAM SENT
TO MR. JEAN MONNET

“ On behalf of all those gathered here at the European University Institute today, your 90th birthday, to hear the second lecture in the series bearing your name, we thank you with all our hearts for everything you have done for the union of our peoples.

We send you our best wishes and assure you of our devotion to the cause which you have served in so exemplary a manner.

Yours in friendship and respect,

EMILIO COLOMBO
MAX KOHNSTAMM ”

LECTURE BY MR. EMILIO COLOMBO

President of the European Parliament

For years we have all, with our own responsibilities and to the extent of our own capacities, been involved in the difficult process leading towards European Union. For us it is both an ideal and a political objective to which we have committed our generation and which we hope will merit equal attention and commitment from succeeding generations. Our belief in and our work towards European Union derive not only from the accepted currents of our political thought, but also from the conviction which has grown particularly since the war of the inability of individual states to cope with the inevitable process of internationalization of the economy or with the almost exclusive domination of the 'global' powers in maintaining the often fragile balance of international policy in these times.

We have no reason for complacency about the present state of Europe in spite of the efforts we have made and the network of links which we have developed and which have made us aware that there can be no turning back.

We are strengthened in this belief by our experience which has shown us that as Europeans we can make a real impact when we manage to find the right joint solutions to the problems of our time.

In these difficult times, in spite of the economic and political crises into which our countries and the Community are plunged, we can see the truth of Jean Monnet's remarks when he pointed out that it was at times of crisis that the most decisive steps were taken towards European integration. This is one of those times when the crisis forces us to act and strengthens our conviction, even in the face of effective opposition, that none of us is in a position to overcome it alone.

Europe is thus facing a number of important decisions which it cannot afford to put off.

We would face the future with greater confidence if we could count on the vigilant efforts of Jean Monnet, to whom this lecture is dedicated with respect and admiration on the 90th anniversary of his birth, for he always acted discreetly but constructively because his action was based on firm convictions and on his political genius.

There are three major topics facing us in the coming months all of vital importance and all interconnected: the European monetary system, the enlargement of the Communities and the development of their institutions.

We come now to the first of these which is at a very delicate and decisive stage at this very moment.

Over the three-year period 1975-1977 the rate of growth of the main industrialized countries, with the exception of the United States, fell sharply.

A comparison between the average rates of growth in the gross domestic products of the most highly industrialized countries of Europe – and these include West Germany, France, the United Kingdom – in 1975-1977 and the preceding fifteen years shows clearly that the rate of progress towards higher levels of prosperity fell by almost 50%.

Analyses carried out by a wide variety of bodies have brought to light a number of reasons for this significant slowing down of expansion in countries which after the

Second World War showed their ability to sustain a high level of growth in production and employment, while maintaining sufficient internal and external stability.

At the beginning of the 1970's cost pressures began to be felt. These were caused by policies of granting wage increases without any corresponding increase in productivity and led to a redistribution of funds to labour from the other factors of production.

Weakness in internal investment demand, which came about in most countries as a result of the deteriorating economic situation of companies, was dealt with through an increase in public expenditure aimed at expanding the market and encouraging industry to continue to invest.

Since the increase in public expenditure was felt primarily in current expenditure, on the consumer side, it aggravated the imbalance which was developing between production and consumption and all countries had to introduce deflationary policies to attempt to preserve balance on the domestic front, in prices, and internationally in the balance of payments.

It is difficult to control the ordered development of economic systems by means of monetary intervention. The money supply is controlled not so much by the monetary authorities as by growth in wages and government decisions on public expenditure.

Only when internal and external imbalances become excessive do the monetary authorities intervene with drastic measures which often go beyond what is necessary and bring about deflationary effects which by their very nature cause pressures in the opposite direction requiring a reversal of the previous decisions.

The much criticized stop-go policies resulted from the impossibility of controlling the development of the economy and the consequent recourse to monetary measures when real imbalances became severe.

This is what happened between 1968 and 1973 in the

highly industrialized countries of the world and led the United States to declare the dollar inconvertible on 16 August 1971.

The situation grew even more serious at the end of 1973 when, in the absence of a new international monetary order, the laborious efforts to achieve it were upset by the quadrupling of oil prices. Many blamed the failure to deal in a concerted manner with the deflationary effects of the increase in oil prices on the lack of political cohesion among the countries of the West. Many others felt that international solidarity could not find expression in a common policy as long as it was unclear where the oil producing countries would deposit their new found wealth not only in the long term but even in the short term.

At all events each of the countries of the western world and of the European Economic Community in particular acted independently and thus had to fall back on a policy of deflation which reduced the rate of growth and the level of employment. These policies had different effects on the current rate of unemployment and on the rate of unemployment expected in the immediate future. This led the Community countries to pursue with greater severity policies whose prime aim was the stability of their own currencies at home and abroad.

The various policies were also influenced by the differing degrees of indexing in force in the various economies and the differing ability to cope with the real problems thus led to increasing divergence among currencies.

In Europe the monetary zone eventually became a mark zone; the United Kingdom, France and Italy had to leave the European snake. Outside of Europe, the other monetary zone was the dollar area, supported by the largest single national economy, that of the United States, which was 95% independent of international trade. Thus, while the value of the dollar gradually came to reflect the United States'

need to cope with one of the highest levels of unemployment, the value of the mark reflected the situation in Germany and in the other countries closely linked to it where the rate of unemployment was low and the dependence of the economy on foreign trade was high, which meant that monetary stability put a premium on growth and an increase in the level of employment.

The currencies of other European countries – the pound, the French franc and the Italian lira – thus found themselves caught between the need to support a minimum level of domestic growth – so as to at least maintain the existing level of employment – and the equally pressing need to maintain or increase international trade because of its influence on production and employment at home.

The disorder and instability in exchange rates which were both an effect and a cause of disruption in the economy eventually made the disruption even greater and future prospects more uncertain.

This was why at the end of 1977, in view of the fact the United Kingdom and Italy had succeeded in improving their external position which had suffered badly in the previous eighteen months, the proposal was put forward to set up a new monetary agreement among the countries of the European Economic Community.

When the proposal was put forward, it was stressed that if any exchange rate mechanism was to make a serious contribution to attaining the Community's objectives for economic growth, it had to be based primarily on a closer convergence of the basic economic positions of the countries of the Community and thus on a more stable coordination of the economic policies pursued by the various States. It was also stressed that a Community exchange system would itself provide an impetus to the convergence of the economies by laying obligations of notification and discipline on economic operators through the fixing of the rate of exchange.

During 1978 there was a growing awareness of the need for concerted action in economic policy by the major industrialized countries – adapted to suit the capacities of each country – which would be aimed at achieving balanced economic growth and a stabilization of exchange rates, since it had become clear that the manipulation of exchange rates was insufficient to restore stability and growth to the economies.

Within the Community, the persistence of the economic crisis which called into question the survival of the common market and all that had been achieved with such great effort encouraged the President of the Commission, Mr. Jenkins, to give a new impetus to the process of economic and monetary unification with the important speech which he delivered last year in this very hall.

This step was in line with the development of the world economy towards a multilateral system more in keeping with the present state of international financial relations where the concept of individual countries playing a leading role has proved inadequate. This initiative was endorsed at the meeting of the European Council in Copenhagen last April, at which the Heads of State or of Government agreed on the need to promote greater harmonization in the economies and currencies of the EEC.

The technical experts then went on to draw up alternative hypotheses spreading the burden in different ways among the participant countries. The first model proposed was a new version of the current snake with a little more flexibility for currencies which fluctuated to a greater degree; the second proposed that exchange rates be fixed not on the basis of a bilateral parity grid but on a weighted average index expressed as a European Unit of Account (equivalent to the actual exchange rate fixed on the basis of the geographical distribution of the foreign trade of each country). The third proposal suggested the fixing of a

reference zone for the three countries now floating independently. The Council of Finance Ministers, at its meeting of 19 June, expressed a preference for a system which could be applied to all the currencies, which would impose equal obligations on all participants and which would reduce the disparity between the economies of the member countries without, however, preventing exchange rates from reflecting the real differences which do persist. They felt that the system should also help to improve the international monetary system by bringing greater stability into exchange rates between European currencies and the other main currencies.

Further indications about the nature of the new European monetary organization emerged from the European Council in Bremen last July. On the basis of a Franco-German proposal the broad outline of the European Monetary System (EMS) was drawn up. I believe that this is a far reaching proposal which has the potential to achieve the benefits called for by those who support the concept of regional currency zones, in particular the reduction of the disadvantages arising from the different sizes of the member countries, a greater degree of economic and commercial integration and greater political solidarity. These benefits can be obtained if the proposal takes due account of the joint working of the three constituent elements: agreement on exchange rates, European Monetary Fund (EMF) and economic measures to help the less prosperous economies. Only if these three fundamental components are brought into play together will the EMS succeed.

Realistically, in Bremen provision was made for a transitional period during which the countries which are not members of the snake can enjoy a suitable degree of flexibility, for example wider margins of fluctuation and a sufficiently generous credit scheme (before the European Monetary Fund proper is set up), to make it easier for them to observe the new commitments on exchange rates. The more

flexible application of Community commitments during the transitional period should not be seen as a weakening of the status within the Community of the countries benefiting from it. The transitional period should be used to implement national and Community policy designed to bring the economies of the Member States closer together, since experience has shown that without true economic convergence agreements on exchange rates will be short lived. The EMS will be successful only if it is lasting, that is to say only if in the long term (and not just for a few months or for one or two years) *all* the member countries belong to it.

Current negotiations have brought to light differences of opinion on how the EMS should be implemented. The annex to the Bremen communique places the ECU (European Currency Unit) at the heart of the system to be used to settle payments between the monetary authorities of the EEC. This statement of principle gave rise to two conflicting interpretations leading to two quite different methods of operation. In the first method, the ECU is the currency of the system and provides a reference point on which the central exchange rates and the margins of fluctuation are fixed. Technically this method could be complex to operate. Based on the technical formula of the basket of currencies, the ECU is made up of fixed quantities of Community currencies whose value (and consequently 'weight' in the basket) varies daily with movements in the exchange rates. This structure produces an imbalanced system since the strong currencies have wider scope for fluctuation than the weak currencies. Moreover, since a currency can reach the limit of fluctuation while the others are not at the opposite limit, if the country which is out of line buys or sells Community currencies on the exchange market this will give rise to *unintentional* debit and credit balances in countries whose currencies have been used for intervention and will

in turn involve the countries which are in credit or in deficit in unilateral adjustments.

The second method involves the fixing of bilateral parities – the ‘parity grid’ system – on the basis of which the margins of fluctuation are fixed. Although this method uses the ECU to fix the parities it tends to minimize the use of the ECU itself and leads to a system similar to the snake, which was not a very successful venture for the Community as a whole.

The conflict between the two approaches led to the working out of a compromise formula which incorporates the practical benefits of the parity grid and the value of the ECU for identifying currencies which are moving away from the average of those participating in the system. This practical compromise has not, however, removed the basic differences which persist on the precise definition of the obligations of countries whose currencies get out of line. Some countries felt that it would be sufficient to adopt simple consultation procedures to examine the economic policy of the country while others felt that there was a need for a more binding commitment to introduce suitable economic measures and for specific obligations in relation to intervention and payment. To solve this dilemma which cut across the traditional division between the countries in the snake and countries with floating currencies, a middle way was found which appears to have received wide support and on which experts are now working, whereby the country whose currency moves out of line is expected to intervene on the market and is obliged to hold consultations with its partners to draw up measures to correct the situation.

While respecting the freedom of the Member States to negotiate, I feel it appropriate to point out, in the general interests of the Community, the need for the system to be workable, in other words to be accepted by operators as realistic and compatible with the differentials between the inflation and interest rates within the Community. If the

EMS turned out to be merely a new version of the snake, the tensions within the European and international monetary system would grow more acute. We must avoid the errors of the past. If we create a system which is destined to fail the Community would suffer doubly on the eve of its crucial expansion towards the Mediterranean area. There would be economic tensions and a sizeable loss of reserves in the countries with weak currencies, and exchange rate policy would probably be shelved alongside the instruments available at Community level, not to mention the cost in political terms of another failure for the future of Europe.

The EMS should have a degree of flexibility which should make it possible to vary the central rates to prevent their being held at unrealistic levels and sufficient room for manoeuvre before the bilateral margins are fixed. But the objective of achieving a stable Community in which differences in rates of inflation will gradually disappear should be pursued in the medium term with determination although the gradual progress required by the socio-economic position we are starting from will not allow us to give priority to that aim at the expense of employment and growth without causing serious internal difficulties. In other words we must not change the priorities which have been accepted by all our peoples and governments during this post-war period. For these reasons the system should be balanced in its requirements for adjusting economic policies, leading the less-favoured countries to pursue policies aimed at re-establishing balance on the domestic and foreign fronts and the countries in surplus to expand their domestic economic activity.

On the European Monetary Fund the Bremen communique proposes that the member countries should deposit the equivalent in gold and dollars of 20% of their reserves and a corresponding amount in national currencies. In all the Fund would thus have available resources of the order of 50,000 million ECU's. Since the creation of this Fund poses

legal and political problems quite some time will have to be spent on the technical aspects: two years according to estimates made at Bremen. However, it will be possible to provide right away – by expanding and if necessary modifying Community machinery – a sufficient volume of credit to ensure the smooth running of the exchange system during the transitional phase. Most people feel that a volume of resources of around 25,000 million ECU's would be a suitable amount. Any lesser sum would, in my view, be a mere cosmetic operation and seriously damage the credibility of the EMS as regards the agreement on exchange rates at its most crucial moment, when it is just getting under way.

I would also like to stress the role of the European Monetary Fund and the parallel currency it would issue in connection with the contributions from the central banks, in the process of European unification. The parallel currency issued by the European Monetary Cooperation Fund would initially constitute a sort of European special drawing right; its transformation from a unit of account into an instrument to be used for reserves and payments, that is to say a currency for official use, is an important step towards a common European currency.

On these aspects of the proposal there is also a difference of opinion between those who support a minimum position and would like to reduce the Fund to little more than an accounting instrument and those who want to increase its powers and scope right away.

The fact of drawing attention to the economic realities of the member countries does not mean supporting the 'laxist' view of the EMS. Quite the contrary. It is a *realistic* view which implies the adoption of a consistent monetary discipline with the aim of creating an area of real stability in the Community but which at the same time requires the adoption of measures to help the weaker countries to respect

the more rigid economic discipline implicit in the monetary system through an adequate transfer of real resources. In the last analysis, the historical significance of the Community can only be judged on its ability to promote unceasingly economic and social progress and to bring, in the process, the member countries and their regions into closer harmony.

Apart from the numerous technical problems and alternatives which reflect previous disappointments or the variety of positions or interests of each of the participants, I feel that a number of questions have to be answered in these crucial weeks.

In spite of the obstacles to be overcome and the difficulties which arise, are the reasons for proposing the European Monetary System, which were not purely abstract or based on the individual interests of a particular country or currency, still valid or will the present suggestions of putting off the proposals gain ground?

Recent experience of the economic and monetary upsets of the 1970's, the still precarious position of certain economies and the structural backwardness of the regions of some of the Member States compared to the more advanced industrial societies, lead many to think that immediate moves towards full European monetary union are hazardous.

The reasons for this uncertainty are understandable, but from a political point of view I feel that if some countries decided to remain outside the system they would be facing even greater risks by not participating in the constituent phase of European monetary union. What is more, they would have to cope with these dangers with less support from their Community partners.

There are certain conditions which must be fulfilled if the political will to join the EMS is to become a reality.

I think I am right in saying that flexibility is the essential component of the technical mechanisms so that all the member countries can join the monetary system from the

start. The transitional period provided for in the Bremen agreement is very necessary to redress economies which at present show a propensity to wide variation in the rates of inflation. During this two or three year period the practical machinery for coordinating exchange policies and economic policy in general will have to take account of these differing initial situations, allowing the national authorities a certain flexibility in the application of economic policy measures. In the transitional period economic policies within the Community must gradually come closer together. The resources released in a country which is fighting inflation should find an outlet on the markets of the other members to prevent a levelling down or a deflationary movement, and to ensure throughout the Community a higher level of growth and a gradual reduction in inflation.

At world level, the continuing instability on the money market means that the European Monetary System is still very much to the point. Efforts to create an area of monetary stability, if successful, will have favourable effects on a wider front. In other words the creation of an orderly monetary system in Europe which reduces excessive divergencies and provides a way of absorbing the surpluses of certain countries, could help the United States, Europe and all those concerned in one way or another to solve the problem of the dollar which is likely to persist for some time yet.

The second question is whether it is possible or desirable to solve the problems of the weaker countries by a specific or implicit acceptance of a two-speed Europe.

There has been talk of a two-tier monetary system but I feel that this view does not take account of the fact that the situation is likely to develop. A two or three-tier Europe should not be seen as an orbital system with the strong countries at the centre and the others following a wider

orbit, with the danger that they will move even further apart.

The economies of the various Community countries will certainly move at different speeds towards the aim of monetary unification because of their different economic and social situations. But they should at least attempt to move all in the same direction so that their efforts will be complementary and help them along the road to rapid and balanced development. In order to bring the speeds of the various countries closer together we will need practical measures to bring about a better balance. These measures are at present being studied by the appropriate experts (the so-called concurrent studies) and are an integral part of the EMS proposals, complementing its more specifically monetary aspects.

The third question concerns Italy more directly. Our problems are related to the doubts of those who fear future disappointments and the hopes of those who would like to reconcile membership of the monetary system with the development of technical solutions which might lead to laxist policies and thus in practice to a rejection of membership or of compatibility with the system. There is no doubt that Italy must join the European Monetary System.

The first real condition for this step is to ensure that internal decisions and policies are consistent with our commitment to Europe. Although the reduction of inflation, a return to growth, the reduction of unemployment and the strengthening of production are essential conditions if we are to participate as equals with our partners in Europe, the key to the solution of these problems lies in our own hands. Choosing Europe means choosing certain policies which will gradually enable us to put the Italian economy on a sound footing.

The declarations of intent to move towards membership do not seem to be matched by the behaviour of certain

political and social organizations. It appears that while at Community level talks are going on to create favourable conditions for Italian membership, within Italy there are forces at work, knowingly or unknowingly, to make membership impossible in practical terms. And yet, there is an enormous amount at stake.

We need a great political debate to make Italians understand that the Community rules are binding and require us to make sacrifices now if we are to build a better tomorrow with our European partners. This is the path we must follow even though it is beset with difficulties, as is the current political situation in Italy.

The question of the enlargement of the European Community to include the three Mediterranean countries which have applied for accession is the second major topic facing the European Community. It cannot be treated in isolation from the first topic for if a solution is not found to the economic question the enlargement towards the Mediterranean could lead to a potential break up of the Community if it were not accompanied by greater economic union.

The enlargement of the Community is a very complex matter as regards the technical aspects of the negotiations but a relatively simple and uncontroversial one in basic political terms. The Nine have to come to terms with a political fact – the desire for membership expressed by Spain, Greece and Portugal – which does not allow for delaying tactics or ambiguity.

The preamble to the treaties of Rome clearly provides for an open Community with membership open to European countries which share the original countries' ideals of peace and freedom and have pluralist political, economic and social democratic systems. Any rejection of applications by European countries who qualify for membership in this way would not only run counter to the commitments of the Treaty but also discredit the very principles on which later

achievements were based and thus damage the fundamental interests of its members.

There would not only be a dramatic loss of political credibility in the Nine's efforts towards integration but those efforts would lose their essential impetus if the idea of restricting the Community to its present boundaries gained ground. There is no doubt that the permanent absence of Spain, Greece and Portugal would in the long term damage the very identity of the Community ideal.

The contribution to European civilisation which these countries have made throughout their long history – a no less valid contribution than that made by the existing members of the Community – is such that if they did not join the ranks of those contributing to the ideals and culture of the Community, it would automatically be lowering its sights and be destined to become a mere regional trading area.

Without the contribution of the Mediterranean area, Europe – and thus the Community – would be incomplete.

Politically and ideologically, too, the exclusion of these three young democracies would expose them to a serious risk of destabilization which would be dangerous not only for their democratic institutions but also for the general growth of democracy in our continent. This concerns the Nine directly since by their constant opposition they contributed to the downfall in these three countries of the authoritarian regimes.

The need to pay the greatest attention to the dangers facing these three countries is demonstrated by the anxieties expressed publicly by their leaders about the difficulty of achieving the political consensus on which their governments are founded and about the disastrous effects of any long and not fully justified economic and political isolation from Europe. If Europe rejected the almost miraculous gift of new democratic stability on its southern front and, by

resisting accession, opened the door to economic uncertainty and political unrest in that region, it would be committing a monumental error. It would leave room for external forces willing to move into the area, it would bring prospects of further crises on top of the ones we are experiencing now and would have consequences for the balance between East and West and the development of detente.

But it is not just a question of protecting the democratic values which we share, it is also a matter of the Community's external image.

With the accession of the three new countries the parallel system of political cooperation among the Nine (the foundations of which were laid in the Report on Cooperation in 1970) will have to be expanded accordingly. The contribution of the Three will bring a new dimension to the political image of Europe internationally and indirectly will enrich each of the Nine member countries.

The contribution which Greece will be expected to make to our common political heritage would be in the direction of greater cohesion on our southern flank and closer attention to Balkan affairs. Spain's contribution would be its Latin-American contacts and its traditionally close links with the Arab world. For Portugal there would be the Atlantic dimension and its experience of affairs in Africa which is finding a new relationship with a democratic Portugal. All these contributions will certainly increase Europe's presence in the world and give the Nine - or rather the Twelve - not only greater weight in looking after their own interests but also greater influence in world affairs. By coming closer to the real dimensions of the continent, the Community would coincide more closely with the European component of the Atlantic Alliance thus paving the way for a re-assessment of Europe's role and the European dimensions in the alliance.

It would be better fitted to fulfill the role envisaged by

Kennedy for Europe, a real partnership with the United States with equal rights and duties, to protect the values and common interests of both sections of the western world both on the purely political level and as regards security.

These, then, are the main benefits from a political, ideological and cultural viewpoint which the current members of the Community would derive from a smooth and sound expansion. However, this welcome for the three applications does not and should not mean uncritical acceptance of any and every condition which is placed on accession.

The question of the terms of entry cannot be settled globally but only after close consideration of all the aspects involved. It is a complex question as it involves problems in economic, social and institutional fields which will have to be faced up to by both sides - and as far as we in particular in the Nine are concerned - with full awareness of all their implications, favourable and unfavourable. The negotiations must therefore be conducted in an ordered and clear manner.

These are - in brief - the main points to be borne in mind and the difficulties which are likely to arise.

The present Community has 259 million inhabitants. In 1985 when, presumably, the enlargement to twelve members will be complete it will have 322 million inhabitants (compared with a population of 280 million in the Soviet Union and 234 million in the United States). Its economic weight in the world will then be superior to that of the United States, Japan, the Soviet Union and Canada together. But its economic structures will be less uniform than those of the present Community of Nine. The three applicant countries have a much lower level of development than the Community average.

To bring about greater uniformity in the development of the Twelve and to solve the complex social and economic problems which already exist in the Nine, we will thus need

a sustained rate of annual growth. However, estimates of growth are not very optimistic, either for the present Community or for the applicant countries. This could mean that the already difficult path towards economic and monetary union in the existing Community will encounter greater obstacles and more complex problems.

The change from a Community of Nine to a Community of Twelve will involve an increase in the importance of agriculture and of those employed in agriculture in the economic and social framework of the Community.

Yields per hectare, at present lower than in the Community, particularly in Spain and Portugal, the possibility of increasing irrigation and the increase in prices of Mediterranean agricultural products compared to those in force in the Community could lead to an increase in the production of fruit, vegetables, wines and olive oil and the prospect of the creation of surpluses in some Mediterranean products, accompanied by a reduction in the surpluses of some of the products of the existing Community, since the three applicant countries are net importers of these products and will thus be obliged to buy them, at different prices, on the Community market.

If these forecasts are confirmed they will alter the nature of the problems facing Community agriculture, shifting the balance towards the south and creating new support for a review of the Mediterranean agricultural policy.

As the balance of agricultural interests is shifted towards the south, Italy and the whole Mediterranean area will be supported in their demands for a Mediterranean policy.

In industry, too, the Three will have problems in adjusting their customs duties for the Community countries and for other countries and the enlarged Community as a whole will have difficulties in adapting sensitive industries to the new problems of competition.

In the regional sector the imbalances within the Com-

munity will grow even more acute: the difference in gross domestic product between the poorest region of the Nine – the West of Ireland – and the richest region – the State of Hamburg – which at present is of the order of one to six, will increase to one to twelve when the poorest region of the Twelve becomes Villa Real, Braganza, in Portugal.

It will then become economically and politically vital, even more so than at present, to restore balance between the regions and to transfer resources from the richer to the poorer regions, a problem to which insufficient attention is paid at present.

Equally important are the economic and social problems which enlargement will raise in connection with wages in industry in the Nine and in the Three: the Nine will suffer from competition and the Three from the increase in production costs.

But of course it is to be expected that problems will arise.

In assessing the advantages and disadvantages we must bear in mind the impetus that will derive from the gradual unification of a market of more than three hundred million people and the sharing of new, diversified resources.

This necessarily succinct and therefore incomplete review of the problems posed by the enlargement of the Community means that we must stress as clearly as possible that it is not only in the interests of the Nine but it is in fact their duty to open the doors of the Community to these countries, and we must then embark on serious negotiations in which the sacrifices which each side will have to make are directed towards a consistent development of the process of integration.

History has taught us that no political, economic, cultural and social expansion of the Community is possible, while preserving its identity, without a simultaneous or rapid strengthening of the process of unifying the component parts

around common central institutions. In building Europe we will have to bear this in mind.

The third of the decisions to be taken by the Community in this period fraught with difficulties but fruitful in new ideas and hopes concerns the institutions. This is usually taken to mean the direct elections to the European Parliament, perhaps rightly so.

These elections certainly represent a turning point in European history, since the process of creating the Community is thereby moved at least partially away from secret and uncontrolled decision-making at the top and more towards direct participation by the people.

Even though the election campaign will bring to light opinions both for and against the process of unification and among those in favour there will be various opinions on how it is to be achieved, nevertheless there is no doubt that this democratic confrontation among the public at first and later in Parliament will give a new impetus both to the Community institutions and to the Governments of the Member States.

But it would be short-sighted to limit the whole problem of the institutions solely to elections to the European Parliament, however important these may be, or to discussions on its powers.

There are five reasons why this problem is a much wider one:

- 1) The new impetus given to the aim of economic and monetary union means that we need institutions capable of laying down monetary rules and providing for effective coordination of economic policies.

The Werner Working Party has already submitted plans for a Community institutional structure based on a decision-making centre for economic policy responsible to the directly elected Parliament and a Community system of central banks the nucleus of which would initially be formed by the European Monetary Cooperation Fund (FECOM).

In spite of the general nature of this proposal it was not accepted. The President of the Commission of the European Communities, Mr. Jenkins, spoke here about the creation of a new major authority to manage exchange rates, external reserves and the broad outlines of internal monetary policy.

The proposals at present being discussed turn on the extent to which the moving of a currency towards the margins of fluctuations should constitute merely a signal to begin discussions on intervention measures and economic policy measures, or else an automatic obligation to intervene.

This debate between those who support an automatic system and those who prefer a signal to start consultations, which implicitly involves the rejection of any authority, by its very nature confirms the need for such an authority either within the framework of the existing institutions, which would be endowed with special powers, or by altering the institutions to enable them to carry out new tasks. It is sufficient to mention the need for a major transformation of the European Monetary Cooperation Fund to enable it to administer a portion of the reserves of the Member States and to issue a European currency, albeit with the initial role of a special drawing right for settling transactions between the central banks.

2) The principle of the enlargement of the Community has been accepted and we have seen above the political reasons for this. Serious and thorough negotiations should be able to resolve the economic and social problems. Those who have long experience of Community life know the difference between the functioning of a Community of Six and the role the Community institutions played in this context and the operation of the enlarged Community of nine members with the role of the current institutions in this broader context. This difference arises both from the more cumbersome nature of the decision-making process and from

the greater disparities between the Member States of the Community of Nine.

One can then wonder, and many highly qualified people are wondering, what will happen to the operation of the existing institutions in a Community of Twelve and how effective the decision-making process can be among countries with even greater disparities.

3) The elections to the European Parliament and consequently the creation of a more politically representative Assembly with a direct European mandate raises the problem not so much of the powers of the Assembly as of the powers of the bodies with which it will have to deal and of their ability to act in a consistent and politically responsible manner and to guarantee continuous and constructive relations with the Assembly.

4) Over the twenty years of operation of the existing institutions there have been two processes going on side by side. On the one hand the enlargement of the Community, the development of policies of integration and a constant series of problems arising from the crisis have made the institutions incapable of coping with the new conditions. On the other hand, while Parliament, within the framework of the Treaties, and additional agreements, has assumed a greater role in Community life both through the conciliation procedure and through its substantial budgetary powers, the Community role of the other institutions has been weakened. The Commission, through no fault of its own but rather through action by the Governments, has had its powers to make proposals and to provide an impetus to the Community diminished. Its independence has suffered from an internal process of re-nationalization which has certainly reduced its Community role. The Council of Ministers has come to be more the representative of national governments and hence more of a forum for intergovernmental bargaining and by acting in separate sectors of Community activity often kept

quite distinct (Council of Foreign Ministers, Council of Farm Ministers, Council of Finance Ministers) has often let its action become uncoordinated and unilateral.

5) The failure of the institutions to develop has meant that while European institutions have remained at a rudimentary stage with limited powers, many problems on a continental scale, particularly economic problems, are dealt with by international bodies, some private (financial and producer organizations), which are to a large extent not responsible to the citizens of Europe nor subject to national control and this has led, in the past and even now, to a considerable weakening of the democratic nature of the system.

All these reasons, together with a growing awareness of the problem, echoed by the President of the French Republic in his proposal for 'three wise men' which has made the question even more topical, suggest a number of reflections which, while not hoping to solve the problem, can serve as a guide.

The first relates to the need to base our considerations of the problem of the institutions on the *Treaties*, on the preservation of the principles they contain and of the achievements which have been based on their ideals. We must correct the distortions produced by political expediency or routine, reassess each of the Community bodies in the light of experience and use all the powers contained in the *Treaties* without fear of making innovations which are in line with the highest Community ideals.

The advent of direct elections to the European Parliament has opened discussions about its powers. No member of the directly elected Parliament will want to overstep the bounds of his mandate but, while the views of those who want to make the new Parliament into a Constituent Assembly deserve attention, we cannot accept the view of those who wish, by an agreement between the Governments, to

prevent the development of Parliament's role within the framework of the existing Treaties or the agreements complementing them.

The general principle of respecting what is called the 'acquis communautaire' is particularly important as regards the role of the Commission. As the Community is enlarged it becomes increasingly important to safeguard not only the unifying role of the Parliament but also the independent and active role of the Commission, in the spirit of the Treaties of Rome. As the role of the Council becomes increasingly complex as a result of the greater diversity of geographical areas, economic and social conditions and varying political tendencies which will be represented, so the Commission must be given the power to propose solutions capable of advancing Community policies and integration policy in general. To this end consideration should be given not only to the membership of the Commission in terms of numbers but also to a closer relationship with Parliament as regards both its appointment and its supervision.

As for the Council of Ministers the main problem is to strengthen the Community spirit, while respecting its role of representing the Governments. This cannot be achieved solely or primarily, as some believe, by abandoning the principle of unanimous voting so much as by strengthening relations between the Commission and the Council so that they work more closely together.

Consideration should also be given to ways of preventing the Community policies from being dealt with separately or in isolation from one another by the Council. Lastly, we must reconcile the desire of individual Member States to hold the presidency of the council periodically with the need for greater continuity in the work of the presidency and thus greater efficiency particularly as regards the maintenance of continuous relations between the president of the Council of Ministers and the European Parliament.

Closely linked with this concept is the position within the institutional framework of the European Council which now meets regularly and takes political decisions which affect the normal development of Community life, in budgetary decisions for example. This poses problems for relations with the Council of Ministers and raises the question of whether and to what extent it is attempting to become a potential 'European executive'.

All these questions are of great interest and constantly raise the problem of preserving national identities within the context of relations with the developing supranational bodies and of the need for decentralization to bring the State closer to the daily lives of ordinary people.

However, it is our duty in the short term to consider the more practical, if less impressive subjects which concern the decisions we have to take now on economic and monetary union, enlargement and the birth of a directly elected European Parliament.

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