european community

PRESS RELEASE

EUROPEAN COMMUNITY INFORMATION SERVICE
2100 M Street Northwest, Suite 707, Washington, D.C. 20037 Telephone: (202) 872-8350
New York Office: 245 East 47th Street, New York, N.Y. 10017 Telephone: (212) 371-3890

No. 5/1978

February 1, 1978

EC COMMISSIONER URGES ECONOMIC AND MONETARY UNION

Richard Burke, member of the Commission of the European Communities, today called for economic and monetary union of the nine Community countries in a noon address to the Mid-Atlantic Club in Washington, D.C. Commissioner Burke, whose responsibilities include taxation, consumer affairs, transport and relations with the European Parliament, is currently on a week's visit to the United States.

The text of the address follows:

Politicians and businessmen in the United States have a long history of intimate connections with their counterparts in Western Europe. Over the last twenty years, a new dimension of growing inportance has been added to these relationships with the emergence and development of the European Communities. In all of their dealings with the European Communities, successive U.S. Administrations have made it very clear that, while they may sometimes have disagreed violently with this or that Community policy, they have always taken the view that the development of European integration is a very positive factor in world political and economic affairs.

I do not propose to go deeply into the reasons for this view. I would simply remark that, on the political plane, a unified Europe can be a powerful stabilizing force in world affairs. On the economic front, the United States has a very clear and obvious interest in a healthy and expanding European economy, not only from a trading point of view, but also as a center for investment.

In 1976, your exports to us amounted to $25.4 billion, or 21.4 per cent of your total exports. Our exports to the U.S. amounted to $18.1 billion, or 14.8 per cent of your total imports. I would note in passing that your trade surplus with the EC in that year amounted to $7.3 billion, against an overall deficit on trade of $6.7 billion (figures supplied by the Statistical Office of the EEC). During the first nine months of 1977, you ran a trade surplus of $3.3 billion, against an overall trade deficit of $20.8 billion.

Economic developments in the EC are important for the U.S.; the converse is also the case. We have all been painfully aware of the monetary upheavals of recent years, and of the breakdown of the system instituted by the Bretton Woods Agreement. We have all seen how movements in the exchange rate of one currency can spark off a chain of reactions with significant consequences for other currencies.

Looking at the economic background, we can quickly conclude that there is a significant degree of transatlantic interaction and interdependence.

It is for this reason that I propose to talk to you today about the development of Economic and Monetary Union in the European Communities. In a sense, Washington,D.C.,is a particularly appropriate place in which to speak on this topic. Your own experience of the construction of a very powerful economic and monetary union began just over two hundred years ago, and Washington is the hub of its administration. Our experience in the European Community is of much more recent date.

While, for obvious reasons, the two experiences are not directly comparable, I believe nevertheless that your situation today can provide us in Europe with some valuable pointers.

Let me briefly sketch the present situation in the European Communities. We have very largely achieved our aim of market unity. Since January 1 last, we have finally abolished all customs duties in our internal trade, thus completing the integration of the three most recent Member States into our customs union. There remain certain non-tariff barriers to trade, which we are in the process of eliminating. Trade between the Member States can be complicated by differences in tax systems, particularly indirect taxes and excise duties. I dare say that some of you will have encountered problems of this kind in your own country. For our part, we are making steady progress in dealing with this problem. Finally, we have still not achieved the desired level of freedom of movement for the professions.

Each one of our Member States has suffered to some degree from the economic difficulties which have beset the world since 1973. In our Community, composed as it is of sovereign nation states, a certain tension inevitably arises from the apparent contradictions between the different national contexts. I say that these contradictions are apparent, because I believe, as do my colleagues in the Commission, that when the problem is looked at in a wider perspective than the purely national, it is abundantly clear that reactions based on purely national considerations run a grave risk of further destabilizing the situations and, in the end, of compounding the problem they are intended to solve.

It is understandably difficult for some of our Member States to accept the practical conclusion of this kind of reflection. As you know, their economic situations are very divergent.

While we have floating currencies allied to high inflation rates and stable currencies allied to low inflation rates, we also have the rather curious phenomenon of stable currencies allied to relatively high inflation rates. You will see, therefore, that the economic difficulties have had a differential impact on our Member States. The conclusion that this calls for differential responses is an easy one to draw, but one which we in the Commission are convinced is wrong, for reasons which I will outline later.

European industry faces a number of serious problems which, in some sectors, create a requirement for fundamental and rapid structural change. In certain sectors, particularly steel and textiles, the scale of the industry and the gravity of the problem are such that the only viable approach is one worked out at Community level. Where, in other sectors, direct local action is appropriate, we must nevertheless ensure unity of approach, so that the solutions applied in one part of the Community do not simply frustrate efforts undertaken in another part.

We have our brighter spots, too, of course. In the aeronautics, data processing and electronics sectors, we believe that we have useful development opportunities, which we believe can be sustained and brought to fruition by a greater degree of coordination at Community level.

You will certainly be able to appreciate our problems in the energy sector. We are even more heavily dependent on imports than you are. This being the case, the development of internal energy resources and the rationalization of energy use are, if anything, even more important to us than they are to you. We are in the middle of a large-scale public debate on nuclear energy, organized by the Commission. In this sector too, the scale of investment and the importance of the choices to be made require coordination at Community level.

The changes which face us on the economic plane, and the movements in favor of greater social justice require us, at Community level, to make a positive response, via the means at our disposal for promoting the adaptation of our labor force to the imperatives of our situation, and to explore means of furthering the more specifically social aims proposed.

This, then, is an outline of some of the problems we face. We in the Commission believe that our best response lies in a more vigorous pursuit of what we call Economic and Monetary Union. We presented our ideas on this to the European Council (composed of the Heads of State or Government of the Member States) last December. The response was positive, so that we now have a mandate to press forward along the lines we suggested. We will also do this on the basis of a rolling five-year plan, which will be re-examined each year by the European Council, and which can thus be adjusted to take account of the developing situation.

What is Economic and Monetary Union? I think that the best way of answering this question is to illustrate EMU by reference to what we hope it will achieve. I do not propose to go in detail into how we hope to bring about EMU. Part of the reason is that we are only beginning to specify the steps we must take. The other, and more important part of the reason is that I believe that it will be more interesting for you to see the shape and reason of our ambition, rather than to get bogged down in the nuts and bolts.

Let me deal first with the monetary aspects. In a Community in which we have removed all tariff barriers to trade, where we have made very important progress on non-tariff barriers, and where we are working to reduce the problems of tax differences, there is still a factor which can seriously hamper trade. That factor is, of course, exchange rate risks. We have, effectively, four currency areas in the Community. Germany, Denmark and the Benelux countries are in the "snake." The pound sterling (with which, for exchange purposes, the Irish pound is directly linked at par) is floating; so are the French franc and the Italian lira.

As you know, the exchange risk can, at times, be very high in intra-Community trade. The consequences of this can be quite disturbing for industry and commerce. Monetary Union would remove this risk, with very positive benefits. This will clearly involve a harmonization of exchange rate policies, proceeding then to a system of effectively fixed exchange rates between the Community currencies. The advantages of such a situation for businessmen within the Community are clear. So, too, are the advantages for businessmen and investors from outside the Community.

Still on the monetary plane, the move to stable intra-Community exchange rates, and eventually to a common Community currency, would have very important implications for the international monetary system. The Community is the world's largest trading bloc; it is the world's second economic power. These factors have not had their full impact on the international monetary system simply because the Community currencies have reacted in a divided fashion. To put it another way, I believe that many of the problems we have faced over the last six years could have been avoided, or at least alleviated if the Community currencies moved in a way consistent with the total economic weight and strength of the Community, rather than on the basis of the separate conditions of each Member State's economy.

A common European currency would be a major international currency. You have such a currency -- a situation which brings advantages as well as disadvantages.

The appearance on the world scene of a major new international currency, which subsumed some of those which today exacerbate exchange instability, could bring very important benefits to the Community, to the United States and to the international monetary system in general.

Within the Community, monetary union would help the Member States collectively to recover the control over demand and inflation which most of them have individually lost. When we consider that not far short of half of all the Member States' trade is with the other Member States, we can see immediately the interaction of inflationary pressures between them. On the other hand, over half of the Member States' total trade is with countries outside the Community, so that the individual Member States and Community as a whole are very open to the influence of economic trends elsewhere. As the world's biggest trading group, the Community is clearly very open to importing (and to exporting) inflation. Monetary stability, both internal and external, would therefore bring considerable advantages to the Community and to its trading partners.

The competition of our Economic Union would give a further stimulus to the level of economic activity in the Community. As I have already pointed out, we have made substantial progress in removing non-tariff barriers to trade. Our policies on tax harmonization are well under way. We have made progress in relation to the freedom of establishment in the professions.

Much, however, remains to be done. I have a particular personal interest in this aspect of EMU since, as the Commissioner responsible for Taxation, it is my job to specify the fiscal measures which our progress toward EMU will require.

The creation of a single European currency and the creation of an integrated European economic system cannot be carried out without harmonization of the structure of indirect taxation and perhaps approximation of the rates of Value-Added-Tax and the major excises.

Whether, in order to abolish fiscal frontiers, we shall need a complete harmonization of tax rates or whether -- as in the USA -- sizeable variations from one Member State to another can be tolerated, is a question for further study.

In carrying out this study, we will have to bear in mind the fact that true economic union requires that those factors in the formation of manufacturing costs which are determined by public policy, including taxation, will have to be broadly equalized. This implies broad equalization of tax burdens which will, in turn, dictate the need for Member States to adapt their taxation systems towards a common pattern.

The achievement of EMU in conditions which satisfy the aspirations of our people will require a better regional distribution of work and wealth in the Community. The poorer regions will need assurance that their economic difficulties will not be aggravated. The richer regions will need the assurance of more stable and secure markets. We will therefore need measures to accelerate the flow of public finance between regions.

At the political level, the achievement of EMU will require us to take a new look at the institutions of the Community.

The process which I have described will evidently create the need for greater centralization in some areas of economic policy. On the other hand, there is a clear movement of opinion in all our Member States toward a greater decentralization of power. We will have to examine each area of public policy, and particularly of public finance. We should, in my view, give the Community institutions those functions which can manifestly best be performed by it. For the rest -- which will, however, constitute a very important part of public policy-we must aim at a dispersal of power to respond to the need for efficiency and to the need, felt more and more urgently, for decision-making to come closer to the people in their everyday lives. This is an aspect of our endeavor with which you, I am sure, will identify and sympathize.

There is more to the story than this. Economic and Monetary Union, desirable though it is, and difficult as it may be to achieve, is not an end in itself. Rather, it is a means of securing for our people a greater degree of economic stability and security. Against this background, we can more confidently continue and develop our action to improve the quality of our society and to ensure the respect of the individual's economic and social rights and obligations.

The ultimate of Economic and Monetary Union was well expressed by Mr. Roy Jenkins, the President of the Commission, when he said in the European Parliament last January:

> "I believe that no proposal for political union can make practical sense without the underpinning of economic and monetary union."

It was indeed appropriate that he should have said this in the European Parliament. As you know our Parliament will, next year for the first time, become a directly-elected Parliament. This will bring that institution closer to the people, and will inevitably result in a greater degree of popular pressure on our other institutions.

Let me admit, in conclusion, that I have been selective in my treatment of our topic today. There is a very simple reason for this, which I hope you will appreciate. I said at the beginning that successive U.S. Administrations have taken the view that the development of European integration is a very positive factor in world political and economic affairs. The reason for my selectivity is that I wished, in describing what we mean by Economic and Monetary Union, to indicate to you how a further deepening and enrichment of European Unity could justify a continuation of that view.