Statement by Raymond Barre to the European Parliament (4 July 1972)

Caption: In a statement to the European Parliament on 4 July 1972, Raymond Barre, Vice-President of the European Commission with special responsibility for Economic and Financial Affairs, defends the European currency snake and calls on the Six to exercise increased monetary austerity.

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Statement by Mr Raymond Barre, Vice-President of the Commission to the European Parliament (4 July 1972)

Monetary problems are once more in the limelight. Once again we are playing at forecasts and predictions. The computation, and if I may say so, cerebration season is in full swing. But when facts are complex and ideas are muddled, we must try and get to the crux of the argument. In appraising the situation now, I feel that we have to distinguish between three separate problems, namely, the pound sterling, inter-Community exchange relations and the dollar.

After massive speculation against the pound, the British Government on 23 June decided as a temporary measure to let its currency float. So Great Britain for the time being cannot honour the commitments she made under the Washington Agreements and the Community monetary arrangements.

I shall not dwell on the causes behind this situation. The internal problems of the British economy, arguments in Britain over changing the parity of the pound, misgivings expressed in many British circles over Britain's ability to share in the Community monetary Agreements could do nothing but excite speculation. The force of the speculative gale which blew up in a few days is proportionate to the role of the London market in international financial dealings.

Thus the current crisis over the pound is not altogether a surprise; the fire was smouldering under the embers. The crisis shows that one cannot ignore or evade Great Britain's economic, monetary or financial problems and that solving them will require the smooth running and sound development of the enlarged Community.

The Community has sympathetically acknowledged the decisions which Britain has been obliged to take. What matters now is for the United Kingdom to be able to join the Community in January next with her exchange position standardized in relation to her partners. She will then have to find among the Member States the help to allow her to get over her difficulties.

The question arose immediately after the British lapse as to what attitude her partners would adopt. Ireland, monetarily bound to the United Kingdom, could only fall in with the British position. Denmark, up against balance of payment problems, temporarily withdrew from the Basle Agreement while respecting her Washington commitments. Norway maintained all her commitments.

What did the founder members of the Six intend to do? As you know, they decided in Luxembourg to respect the Washington Agreement on exchange rates and keep up the monetary arrangements made last March within the Community.

Italy had a special problem. Floating the pound exposed the Italian Lira to bearish speculation and heavy capital outflow. The Italian picture in contrast to the British could not justify floating the Lira. The Italian economy is certainly going through a difficult and unsure period. But Italy's balance of payments is in surplus, reserves are plentiful and her export prices have up to now developed more happily than those of her partners.

The Italian authorities, resolving to take all necessary steps to stem the outflow of capital and defend the Lira, asked for the intervention system on the exchange market to be temporarily waived, meaning that the Bank of Italy would be authorized for a specified time to intervene in dollars and not Community currency so as to keep the Lira within what is called the "Community crawling peg" by respecting the 2.25% margin.

The waiver was granted since it lies within the span of Community arrangements. Working closely with the other Central Banks in the Community, the Bank of Italy will take care to prevent an excessive flow of dollars into its partners' tills.

All those who just before the Luxembourg meeting were predicting that the Community Agreements, that the "Community crawling peg", would perish, immediately indicted the frailty of the Council's decisions, as if these people could only rejoice over setbacks and disasters. What a hue and cry there would have been if a week ago the Community Agreements had been suspended?

Comparing the moderate handicaps suffered under the temporary waiver granted to Italy with the economic problems which would have arisen if we had let go of the 2.25% margin, the solution taken can only be applauded. The waiver granted to Italy is merely the result of an actual situation where the gold of the Central Banks is now frozen and cannot perform its role as the international means of settlement.

Does this mean that other problems will not arise in future? I would be the last to say so. But nobody ever thought that the Community's monetary organization would be created by magic. The mechanism of the Basle Agreements was carefully thought out. They can work between the Six but only if Member States are prepared to defend them through close solidarity.

People will never tire of saying that speculation is so often a winning game, even if it does not have to be, because it senses the bastions against it are going to crack. Speculation is anything but irrational. Why should it be robbed of a profit if there is any chance of making one? Why believe that an Agreement is solid if it is known that at the first blow the Agreement will be jeopardized and if it is seen that the partners themselves do not believe it will last?

In Luxembourg the Six Member States proved that they would not go back on their decisions of three months earlier. The future will depend on their showing such determination.

What I have just said about the inter-Community Agreements applies equally to the Washington commitments; namely, to the dollar problem. In December 1971, six months ago, a new exchange rate structure was set up between the main powers of the western world. Everyone knew then that it would not be easy to defend these rates and that, if need be, the dollar would have to be supported. Indeed, the USA's balance of payments cannot be redressed overnight and furthermore no one has yet succeeded in throttling the movement of speculative capital.

The Washington Agreements were made to put an end to a situation by then untenable. I know. I went through it. The countries which had let their currency float were getting more and more concerned at seeing their rate of exchange appreciate against the dollar. Countries which had brought in controls found themselves constantly obliged to tighten them. All of them had come to realize that it was crucial to set up and maintain a stable structure of realistic exchange rates which could be systematically adjusted.

Do we now really wish to abandon the still delicate monetary system which we have laboured to repair? Is it so impossible to support the exchange rates determined last December if we fully exploit the wider fluctuation margin with regard to the dollar, if we manage the interest rates and use the various devices for curbing the influx of speculative capital and improving the internal liquidity of our economies? This is not a matter of dogma or theology but simply a case of practical common sense.

Some people wonder whether this would be an adequate means to cope with a fresh crisis sparking off a dollar explosion in the Community. Here and there the idea of joint floating of Community currencies is cropping up. This is hailed both as the recipe for stopping the accumulation of dollars and as a catalyst for monetary standardization in Europe.

To appraise it as a solution, its meaning and application terms must be clarified. There is no greater danger than to bandy technical formulae about whose economic consequences may be all-important for each of us and the Community as a whole. To float, that is, to stop buying dollars, means in the current state of the international monetary system accepting a new revaluation for some Community currencies and, in relation to the dollar, for all of them.

So the first question that comes up is this. Are the Community countries prepared to accept a revaluation on top of that which they agreed to last December? One could reply that it depends on the size of the revaluation, whether it is to be slight or ample. A slight one would be acceptable but not a heavy one, etc.

No one knows what to think.

Anyway, recent experience shows that when you start to float, you can see what is behind you but not what is in front. I remember that when I made these remarks in May 1971 they told me that the floating Deutschmark would not appreciate more than 5%. We all know what happened in six months.

Since supporters of floating press for the mutual floating of Community currencies, another question arises. Can the Six, or the Ten, held together by stable and realistic exchange rates, all stand the same revaluation rate against the dollar?

Granting this to be the case, a third question follows. Some Community countries, for obvious economic and social reasons, cannot risk an overstrong appreciation of their currency not merely against the dollar alone, but against all countries using the dollar, that is, the enormous dollar area. Is the Community therefore prepared to manage a joint and controlled fluctuation?

This means that controlled fluctuation should entail concerted interventions by our Central Banks on the dollar which implies setting up massive strategic funds capable of breaking speculation, plus an effective Community weapon against the influx of speculative capital.

Fourth and last question: if, as is sometimes claimed, the dollar should strongly depreciate, is the Community prepared to protect its competitive capacity by bringing in countervailing taxation on exchange? This is advocated and logically by the supporters of floating, but I would ask you to weigh up the implications and the consequences.

These are the four basic questions which must be answered before one can accurately appraise the scope and effectiveness of a formula for mutual floating.

Personally, I do not rule out a priori that, if events leave no other way out, we shall have to resort to joint fluctuation of Community currencies. Technically, I have no fault to find with this formula. But I am far from considering it the panacea and in any case I want to stress the fact that such a formula has no chance of success unless it means a controlled fluctuation and unless the necessary means of action are united. Otherwise, we may well see a free-for-all with highly uncomfortable economic, political and psychological results. Monetary standardization in Europe would in no way be advanced. Far from it, for all the effort towards it up to now would probably come to nothing.

These then are the three problems which I wanted to outline, the pound, inter-Community relations and the Washington Agreements or the dollar.

In the coming weeks and months, we will have to live dangerously on the monetary front, meaning that we must keep calm.

As I have been constantly saying in Parliament during recent years, in economic and monetary affairs we must never give way to illusions, never scamp the problems and never rush forward with words and no deeds.

My conclusion is quite clear. It is vital for the Community to safeguard the structure of the currency exchange rates set up last December in Washington and to see that we do not backslide into monetary and commercial anarchy which would damage our economies.

Moreover, it is crucial for the Community to maintain and reinforce the monetary Agreements within the Six. These Agreements allow the Common Market to run smoothly. They help us to deal with international monetary problems and they promote the chances of the Economic and Monetary Union. Undoubtedly, this is the surest way of ensuring a unified Community today and tomorrow.