

## Concluding Remarks

I am sorry to have to disappoint you, but confess myself totally unable to perform the impossible task expected from me.

The debates of our four seminars on European economic integration are far too rich and varied to lend themselves to such a summary. This is particularly true of this final Copenhagen seminar, with the additional and obvious impossibility of *improvising* appropriate remarks that would require instead some hours — at least, not to say days or months — of quiet reflection and preparation.

I shall concentrate therefore on my own personal conclusions, highly controversial as usual but yet — I hope — shared by many of you. And I shall try to be brief, at the risk of becoming incomprehensible:

1. The survival of our world will require fundamental reforms in institutions as well as policies in countries still attached to the illusion of national sovereignties, which have long become increasingly ineffective and deceptive even for the most powerful countries, or so-called “superpowers”, *at home* as well as abroad.

2. The habit of intensive and continuous consultations between opposing groups, *within* as well as among countries, has grown enormously for that reason since the last war, and has considerable merit. It is, however, *totally insufficient today*, as spectacularly demonstrated by internal and external violence, inflation and recession everywhere, to say nothing of the threat of a collective nuclear suicide of mankind.

3. The institutional reforms required for our survival pose *essentially a political problem*, rather than merely the monetary, financial, and economic problems to which specialists devote their limited attention and competence. This problem cannot be solved by “*international cooperation*” a word suggesting compromises between national

views developed within each country's political borders. It demands full recognition of *global interdependence* between individual groups and interests, which clash even more within such borders than among countries by no means monolithic in their views.

4. Political awareness of this interdependence, essential to agreed reforms, has of course developed faster within *regional groups* of neighboring countries than on the worldwide scale. It is especially evident in the European Community, where *political goals* (such as avoiding a repetition of the Franco-German wars which were the nightmare of my generation, and of those of my parents and grandparents) are backed by an *economic* interdependence encompassing up to 50% or more of their GNP for the smaller member countries, and an equal or larger portion of external trade and other transactions even for the larger ones.

5. Feasible agreements in the European Community should be pressed urgently today, not only for the sake of its own members, but also as a model of the agreements that their success may, and should, make negotiable tomorrow on a worldwide scale.

6. In the monetary field — which has been the main theme of our seminars — the recognized success of the *European Monetary System* in its first two years of operation is taken by its initial opponents as a sign that all is well, and that further institutional progress may be safely postponed until we succeed in developing a better harmonization of domestic anti-inflationary policies among member countries than has been achieved so far. The proponents of the full economic and monetary union repeatedly promised by our Heads of State and Government obviously take the opposite view. Even those — may I mention my old friend, Monsieur Debré? — to whom this ultimate step is still anathema, should embrace enthusiastically the *European Monetary Fund*, now under active study, and the *ECU*, in preference to the now predominant use of *foreign*, so-called *Eurocurrencies* — primarily the dollar, and the mark — in international transactions in which national currencies cannot, by definition, be used simultaneously by all participants. This "holy alliance" between attarded nationalists and pro-Europeans should be a powerful factor in the negotiations that will follow the French presidential election.

7. The urgency of a big *qualitative jump* emerges from the fact that the initial success of the EMS is very largely due to favorable *external* circumstances that might be reversed dramatically in the forthcoming months. Recent exchange-rate movements, particularly between the dollar and the mark, have contributed powerfully to the abatement of tensions between European currencies on the exchange market. They might be reversed tomorrow if we succeed — as I fervently hope — to quell the fears of a Third World War unleashed by deplorable events in Iran, Afghanistan, the Middle East, etc. These fears, together with interest-rate differentials unsustainable for long and with the hope of more determined anti-inflationary policies in the United States under a more conservative Administration, have prompted capital movements and excessive bandwagon speculation in favour of the dollar and against the mark.

A reversal of these capital movements might also be triggered, unfortunately, by the prospect of further huge U.S. budgetary deficits and price inflation if drastic cuts in non-military expenditures and a quick and strong economic recovery do not fully materialize and offset the enormous tax cuts and increases in military expenditures promised by the new Administration and the more than \$ 50 billion annual deficits, inherited from the previous Administration. An overflow of dollars on the exchange markets might not be absorbed as fully tomorrow as in the past, by the *Bundesbank* for instance, in view of its renewed concerns with domestic inflation and with the recent and excessive external depreciation of the mark.

8. I hope that an early, long overdue, publication of the accounts of the FECOM will permit me to publish internal memoranda of mine to the Commission, documenting the policy conclusions that emerge from its operations over its two years of existence. Referring only to facts derivable from the statistics published by the IMF, the OECD, and national central banks, I shall limit myself to three observations:

a) The EMS could be accused of having been so far an enormous *engine of potential inflation*, increasing its ECU issues by more than 90% over the short span of two years. While these ECU increases have not yet been passed on to the public, central banks value at close to current market prices gold reserves acquired at only a fraction of these prices. This may reduce pressures for policy readjustments essential

to the restoration of a viable equilibrium in national balances of payments. Moreover, the huge bookkeeping profits resulting from gold revaluation will, if past routine is followed, be credited sooner or later to Government Treasuries, facilitating the monetary financing of further deficits, renewed currency depreciation, etc. in an absurd "vicious circle".

b) Credits to member countries have played only an insignificant role in these ECU issues, backed nearly 100% by gold and dollar deposits. Only a minor fraction of interventions in the foreign exchange market are channelled through the FECOM, most of them taking place outside it before bilateral currency margins (2.25%) are reached, forcing such interventions and assuring FECOM financing for them. Intra-marginal interventions still take place largely in *dollars*, as in the past, with far lesser use of any individual *member currency*. Among these, the role of the mark has been predominant, although French francs and guilders have also been used in recent months, in marginal as well as intra-marginal interventions.

c) A third — and somewhat puzzling — observation is the predominant use of FECOM credits in the first six months of operation of the system, of the ECU settlements in the following twelve months, and of credits again since last October.

9. I would derive very briefly from these facts six vital suggestions about the passage to the "*European Monetary Fund*" (which I would, for various reasons, prefer to baptize "*European Monetary Bank*"):

a) Bookkeeping profits and losses resulting from fluctuating gold prices and foreign exchange rates should be *sterilized*, and offset at any point of time and over time, in blocked "revaluation accounts" similar to those which I introduced in a number of Latin American monetary and banking reforms, nearly 40 years ago. The gold revaluation *losses* now in prospect may provide a unique opportunity to gain the support of Treasuries for such a move, obviously attractive to central bankers.

b) This would make it possible to remove one of the two major objections to full acceptability of the ECU (an *inflationary abuse* of ECU

issues) by inserting in the Treaty a *presumptive overall* ceiling of, let us say, 5% a year on the expansion of ECU issues. This overall ceiling would have the advantage of placing in proper perspective the choice which anti-inflationary policies may often entail between credits to members and credits to non-members. (Currently, FECOM credits to the U.S. are more than eight times its credits to member countries.) External surpluses increasing ECU issues against dollar deposits should presumably reduce the need of members for credit; while, on the contrary, this need would presumably be more compelling and justifiable — economically and politically — when foreign deficits contract the amount of ECUs issued against foreign currency deposits.

c) The second major objection to the ECU is that it might not be *fully convertible* for later settlements of extra-Community deficits. This fear should easily be dispelled by the institutionalization of the present normal practice, *i.e.* the automatic financing of 20% of such deficits through drawings on the 20% of members' reserves held in the FECOM, and of the remaining 80% through drawings on the 80% portion of reserves held outside the FECOM (both down to 0 in the worst conceivable hypothesis).

Current forecasts of the unprecedentedly large and unsustainable external deficits of members this year, would — under such a rule — reduce FECOM gold and dollar reserves by less than 10%, *i.e.* a very modest reduction fully justifiable if reserves have any purpose whatsoever.

Huge swap agreements with the U.S., totalling today nearly \$ 16 billion, could also be activated if circumstances proved even worse than now forecast. (I refer you to Jacques van Ypersele's brilliant suggestion that these bilateral swap agreements be *multilateralized* in ECU accounts with the future EMF, permitting a more appropriate distribution of drawings and repayments between Community currencies than the present overwhelming use of the mark, which has often aggravated tensions on intra-Community exchange rates.)

d) Official encouragement to commercial banks to use the ECU in private transactions, as an alternative to Euro-currencies, would also permit a use of the ECU itself in official interventions in the exchange market. I refer you to the *Proceedings* of our third seminar for a discussion of the advantages of such a private use of the ECU and the measures needed to accelerate it.

e) These reforms should help make more negotiable the shift from gold and dollar *swaps* to *permanent* transfers into ECU reserve accounts, indispensable to the communautarization of exchange risks, which is itself an indispensable prerequisite to acceptance of *commonly concerted policies* regarding interventions in the exchange market, particularly in the dollar market.

f) Finally, advantage should be taken from the passage from the EMS to the EMF to simplify the absurdly complex and uncoordinated credit provisions inherited from earlier agreements, and to make them more attractive both to creditors and debtors, as well as more understandable to bewildered laymen or even "experts".

Time does not allow me to develop this suggestion — and others — now, but I hope I may have tempted you to consult the article which I hope to publish as soon as the present and absurd secrecy on FECOM accounts is finally lifted.

10. *To conclude:* The above suggestions would obviously require considerable scrutiny and amendments, in order to improve both their substance and their negotiability. They are undoubtedly ambitious, but the legislative process envisaged as necessary for the adoption of the *EMF* (or *EMB?*) should encompass a long-term view of the reforms indispensable even in the distant future. It should at least include "enabling provisions" giving to the new Agreement sufficient flexibility to permit the later implementation of reforms still deemed most controversial — or presently unnegotiable — without new and time-consuming process of parliamentary ratification, except possibly by the *European Parliament* rather than by national legislatures.

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I invite you all to close this seminar with our heartfelt thanks to all those who have made its success possible, especially the Ford Foundation — particularly Peter Ruof — the National Bank of Denmark, *Privatbanken*, and our closest friend among them: *Niels Thygesen*.

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