

The Case for More Intra-European Monetary Cooperation

Summary of Comments Made in Copenhagen on April 7, 1978

1. I am not satisfied with the rates of growth we are likely to realise in Germany and in the Community in 1978. But I simply cannot see how we can achieve a higher rate in Germany without a higher rate in the Community. Last year, at the London Summit, I promised I would take further action if we failed to meet our growth projections. In the event, such action was taken rather rapidly by act of parliament effective before the end of calendar 1977 and it has begun to show its effects. German GNP increased at an annual rate of 6 per cent in the last quarter of 1977. But because of the currency turbulences, below-average temperatures and industrial strife in some sectors the results for the first quarter of 1978 will be much less favourable. This cannot be cured by taking a few quick "growth decisions" which I would be delighted to take if only somebody could tell me how to reach 4 or 5 per cent of growth.



The lesson we have all learnt in the past few years is that growth cannot be ensured by taking some Government decisions. Particularly in an open economy, strongly dependent on world market conditions, growth is the outcome of a very complicated process to which Government decisions can contribute but which they cannot control. It is for this reason that I am very reluctant to agree to a quantitative growth target for the Community as a whole; it may very well be that we are already proven wrong a month from now.

I am fully aware that in 1977 intra-Community trade has increased less than world trade. This is a great challenge to all of us but I wonder how close the relationship between intra-EC trade and GNP growth really is. The structural crisis which we are going through probably reached its lowest point sometime in the second quarter of 1975. If I take the ten-quarter period from 1975 II to 1977 IV, real GNP in Germany has risen slightly in excess of 10 per cent but the volume of our imports from EC countries has increased by almost 30 per cent. Would our imports have been significantly higher if GNP had increased by 12 rather than 10 per cent? I doubt it and I am sure you will agree with me.

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I would like to add that we should not accept our trade deficit vis-à-vis the OPEC countries as an act of God. Germany has wiped out its bilateral deficit with OPEC, which had tripled between 1973 and 1974. We hope that other member countries will soon be able to do the same.

2. How did we get into this mess? The first thing that comes to my mind is US inflation. During the Vietnam years too many greenbacks were spread around the world. The Euro-Dollar market was created. We were worried about it at that time, small as it was by today's standards. But today the Euro-Dollar market has been extended from London via Luxembourg to the Caribbean and Hongkong. It may reach 600 billion dollars this year, and I would not be surprised if it were to reach a trillion dollars in the early eighties. Since 1971 (abandonment of gold convertibility) and even more so since 1973 (abandonment of par values of the dollar) there are no longer brakes and limitations or even countervailing powers.

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It was this increase in international liquidity which made the enormous increase in oil prices possible, and I am afraid that we will experience more of the same. Last year international monetary reserves increased by about 55 billion dollars, the highest increase in a single year ever recorded. To a great extent, this is a reflection of the US balance-of-payments situation. In 1977 the US trade deficit was some 30 billion dollars and the current account deficit amounted to 20 billion dollars. But the US also had a 15 billion dollar deficit on its capital account. Thus the overall deficit was 35 billion dollars. And who financed this enormous deficit? Essentially the central banks of Japan, Switzerland, the Netherlands, the United Kingdom and Germany and <sup>some</sup> other G 10-countries which bought a total of almost 36 billion dollars (net) last year and reinvested <sup>some</sup> a large portion of ~~it~~ in Treasury Bills so that the US and the American administration did not have to worry too much about the US balance-of-payments deficit.

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