STEPS TOWARDS MONETARY UNION

Pierre Uri

Director of Studies, Atlantic Institute

There is a saying that a politician can only repeat or contradict himself. This also applies to the present speaker who can only repeat or contradict what others have said. Fortunately, looking back at what has gone before, I find that I am left with some leeway. M. Barre has demonstrated how the European Community can crawl on without real monetary integration, but probably not without troubles. For I am not at all sure that consultations, after which everybody does as he pleases, are going to prevent a further drifting apart. Mr. Villiers wants us not to take steps towards monetary integration but to jump right into it. Whether this is really feasible I leave to you to decide. But whatever the solution, the notion of monetary integration is not a clear cut one.

Unfortunately, something is perfectly clear cut—in the European Community we are witnessing monetary disintegration. We have exchange control in France which up to now at least leaves imports completely free, but puts restrictions on some services like tourism, while capital movements are completely blocked. It is perhaps worth noting in this connection that it used to be an objection to British entry that Britain could never sustain the free movement of capital. There have been some exchange control measures in Italy and forced repatriation of some foreign investments by the banks and so on and so forth.

The one step towards monetary union that does exist is something of a paradox. It has been taken not by the Ministers of Finance, who supposedly are competent to do it, but by the Ministers of Agriculture. They have decided that there should be common prices based on a unit of account, and this unit of account is one of the elements of monetary union.

M. Barre yesterday raised the problem whether we would be in real trouble with agricultural prices in the event of some exchange rate adjustment within the Community, either abruptly or more gradually. Let us assume that we had a free market instead of the present support prices agreed unanimously after endless difficulties and which in the final analysis leave plenty of imbalance between the various products. Suppose there was revaluation of one currency. No doubt the farm prices in that country would go down because otherwise they would become less competitive. And agricultural prices of a country which devalues would then go up somewhat as competitiveness increased. But this would take some time. What the common agricultural policy does is to achieve it overnight with plenty of side-effects. Most probably these would be corrected in the one instance by levies and in the other by subsidies, so that although common agricultural prices would be maintained they would no longer mean equal receipts for all farmers in the Community.

Vgl. [illegible] Red. [illegible] für völlig [illegible]!

This helps to show how complicated the notion of monetary integration can be. Once a so-called Latin monetary union was known to exist, but it was more of a sham than a reality. Coins of small denomination could circulate freely in the various countries, but there was no common monetary policy. In the nineteenth century we had in a sense monetary union the world over. At least the major countries had stable exchange rates and full convertibility. This is exactly the meaning of monetary union. Whether it was an ideal state of affairs may be open to doubt. From the purely monetary point of view it may have been fine, but we would find it difficult to try and achieve the same thing again. For it did not exclude, but went rather hand in hand, with a lot of unemployment, with fluctuating and even falling wages, with crises (which a certain philosophy considered a healthy phenomenon); and, last but not least, it did not prevent wars.

The need for overall economic policy

What we want is a very different kind of monetary union where we do not disregard the major objectives of economic policy nor of foreign policy: namely a high rate of growth, a sound balance between the various regions, a high rate of employment, and, of course, peace and a rising standard of living. Basically, the Common Market treaty recognises all these features of a modern economy and particularly the decisive role of governments in economic policy. That is why there is not only free movement of goods but also free movement of factors of production—as we have seen, things did not happen so easily in the case of capital. There are also rules for competition—at least in theory, because up to now very little has been done to eliminate subsidies by governments, and there is not much of a policy relating to cartels and other forms of concentration of economic power. Then again, there are some financial instruments like the Social Fund to deal with unemployment; the European Investment Bank to prevent widening differences between stages of development of the various areas; and, of course, the large Agricultural Fund.

The main trouble is that there is no correlation between the use of these various instruments and the overall objectives of equilibrium between regions and currencies. There is, for instance, the case of a country to which payments have been made from some common fund because the effects of the Common Market have somehow created pockets of unemployment. Such a country may well be, just because of its unemployment, a surplus country. So that you bring coal to Newcastle. By the same token, a country which has backward areas may be a country in surplus and this has in many cases been exactly the position of Italy. Or at times the country which receives nett payments because of its agriculture may also be a country in surplus. In other words, the instruments which we have for financial transfers have special objects and none of them has the general purpose of bringing about a better equilibrium. But the search for this overall equilibrium is exactly the problem we are faced with as between regions.

The correction of payments disparities

It is well known in theory that the problem of equilibrium between countries is not fundamentally different from the problem of equilibrium between regions, except that in one case we have balance of payments statements and in the other case we do not. It can readily been seen that there are only three or four solutions. One is that one part of the country or an area of the world is maintained in equilibrium with the rest because it is continuously impoverished, whereas other parts of the world or of the area, or other parts of the same country, are being continuously enriched. This has been the case of Italy, although there was no balance of payments problem between the North and the South because the South was so impoverished that it just could not import from the North. This is exactly the type of solution which we would consider inacceptable. It is one of the reasons why we created the European Investment Bank in an attempt to avoid a growing gap and make for some asymmetry in development to enable the backward areas to catch up. It shows, too, that a regional policy within the European Community is absolutely fundamental. As yet, however, it has barely begun to be conceived.

A second solution is intensive capital movements. The great advantage of having one currency area is that capital movements then flow much more readily and without any obstacles. As we have seen we are still far from this. The third solution is very large public transfers from one area to the other. It is for instance what has happened in the United States, and what is also happening now in Italy. If there is one overall tax system, particularly if it is based on progressive income tax, and if a great deal of money is spent on social welfare and development, then there can be very large equilibrating movements. Yet we do not have anything of the kind as yet in the European Community because as I showed, the various financial instruments, necessary as they are, has each of them a special purpose which does not necessarily have anything to do with the conditions of overall equilibrium between the various areas.

In the absence of real instruments for integration, there is only one other solution which seems to remain open. Either one has a common policy for regional development and regional balance, with all the instruments which it requires, or one is left with a very different kind of regional policy, which calls for a certain flexibility in the exchange rates. Some people are now beginning to consider this as necessary even within the Community.

In a sense it is rather surprising that the new great idea, first among economists, and now among central bankers, and maybe soon among governments, should be a return to something which is not so new. We learned something about flexible exchange rates in the inter-war period. They did not work so well then. Apart from all the dislocation which they cause, there is no question that this is a new refuge for economic nationalism which in the world today is not exactly what we are seeking. Moreover, much more is now known about the working of the market and the old law of supply and demand has been refined. We know that it is not always true that higher prices reduce demand or increase supply: it may work the other way round. It all depends on the expectations, and even on a very fine concept of the elasticity of expectations. This refinement is now apparently being forgotten in the field of money where it applies more than anywhere else. Because if there is a field where speculation can apply more easily than anywhere else—because paper money is so much more easily transferable than goods—it is the field of money.

One should never forget that in this respect there are two kinds of problems in the world, and particularly within the Community. One is the slow divergence in the rates of price increase, and this is what could be remedied by the crawling pegs. The other problem is that unfortunately this is not the way things always happen and in most cases we are confronted instead with sudden crises. We have witnessed them in the Community with very steep wage increases on one occasion in the Netherlands. Fortunately the currency was undervalued at the time so it worked in a rather good direction—now they may have overshot the mark. We have seen it in Germany—it should not be forgotten how Germany had an enormous surplus, when at the same time, it was the country where prices remained most stable. It occurred in Italy at one point and we may see it again there if politics play havoc with economics. And, of course, it happened last year in France in a situation where prices had already moved up faster than in the other Community countries so that the imbalance was made even worse. There is of course Dr. Carli's argument that the great advantage of slow adjustments is that they take responsibility off the shoulders of the responsible people who never dare make the adjustments because of all the political problems—because devaluation has a bad reputation and revaluation makes a few people less competitive than they were before. But the trouble is that in some cases a rather abrupt change of parity is required, and no crawling peg would solve that problem. In any case this would take us far away from the original concept of a Common Market and an economic union. That is why the choice is either, for lack of any concerted policy and the real instruments which go with it, to have exchange rate adjustments even within the Community: or else to take all necessary steps towards the goal of a really integrated area.

If this is the situation on exchange rates within the Common Market, as far as the European Free Trade Area is concerned, all that was provided for in the Stockholm Treaty was not flexibility and devaluation, but quantitative restrictions, which are by no means better. What happened in practice was that escape clauses were applied, and then there was the devaluation of the pound.

The real meaning of co-ordination

Another method which immediately appears is co-ordination. But while it is of course a ready answer, we have to look more carefully into what it really means. Of course there are some rather obvious cases where what is most needed is most deplorably lacking. One such example is co-ordination in the management of interest rates—or of all things which are a proxy for it since we have in effect invented a lot of procedures to avoid changing the interest rate with the aim of making credit either more readily available or less. Interest rates have a major effect on international capital movement but up to now we have seen each country acting individually and very often in a way which is contrary to what would be required for equilibrium in the international situation. I remember a day when co-ordination was really ridiculed, when both the Bank of England and the Bundesbank raised their interest rates on the same day. The trouble was that Britain was in deficit, and Germany in surplus. So the two measures were mutually defeating. This is exactly the contrary of what should be understood by co-ordination. For this does not mean following exactly the same policy everywhere, but should mean complementary policies in various countries taking into consideration their situation vis-a-vis the others.

But it is not enough to formulate it that way; it is not enough to say that we want to have long-term plans and short-term consultations. The question is, what type of instrument is to be applied? What type of policy is to be followed? That is why I am afraid that the action pursued up to now in the European Community does not go far enough or does not even go in the right direction. A lot of work has been done in the direction of harmonisation, which is a very different thing from co-ordination. Harmonisation means trying to eliminate differences, or at least to reduce them, so that distortions are more limited than they would be otherwise. But if it is done just on that basis, for the purpose of eliminating tax distortions for instance, or having common agricultural prices, there is the risk that all these sectoral steps will run counter to the requirements of overall equilibrium. And if monetary integration means one thing, it is the co-ordination of the various steps taken within the European Community so that they converge towards a better equilibrium in the growth rates of the various Community countries.

Let us take, for instance, the example of taxes. The main effort has been to harmonise indirect taxes, adopting more or less the French system of a tax on value-added. Now this would have the advantage, provided the rates are the same, that for a particular commodity it does not make any difference whether the tax is the tax of the country of origin or the country of destination. However, although this is true for the commodity, there is an important difference from the point of view of overall equilibrium. If taxes are levied on exports, instead of being exempt as is the usual practice, Community countries are going to have higher receipts if they are in surplus—not overall but within the Common Market area—while on the contrary, they will receive less taxes than they did before if they are in deficit. In other words, instead of receiving all the indirect tax receipts on their imports from the Community, countries in deficit will be able to collect only the lower figure of tax receipts on their exports to other E.E.C. countries. This is exactly the contrary of what the economic facts require, because a country in surplus should have more room for deficit in its budget while a country in deficit should have higher tax revenue so as to be nearer budgetary equilibrium.

There was in the past much discussion as to whether the sectoral approach, with the Coal and Steel Community, was the right one. In fact it was recognised from the very beginning that this was a very lopsided affair, and was chiefly a strategy to introduce something which was less obvious nonsense, forcing the governments to go one step further and embark upon the general Common Market. But I must say that within the Common Market, curiously enough, we have a return to a sectoral approach with agricultural policy. There is solidarity for financing surpluses, for subsidising export prices and for modernising structures. But this is instead of an overall solidarity such as one would expect to find in the government and the budget of any one country. In rather the same way the European Investment Bank has worked more with the specific aim of helping the more backward areas of the Community than in the general interest of overall equilibrium.

The urgency of action

It is vital to insist on the urgent character of action. If I can draw the conclusion of what has been said, for instance yesterday, about the Eurodollar Market—and I think the conclusion applies to a much wider field—there are in our world many developments of an international character in the private economy, in the movement of business, for which there is no match in the development of instruments of public policy. The multi-national Corporation is a case in point. A multi-national corporation may be a very healthy factor in a world where we need development everywhere and in which investment is now probably becoming almost more important than trade. But up to now we have absolutely no body which can decide whether in a case of conflict the sovereignty of the country of origin or the sovereignty of the host country should have the upper hand. An example is export policies towards the Communist countries. Here is an obvious conflict and almost an antipathy. If the subsidiary of an American company follows the policy of the host country, then the Washington rules are circumvented. If, on the other hand, the policy of Washington is applied, then obviously the export policy and the sovereignty of the host country is infringed. We need to have a certain set of rules, and institutions to enforce them. We have no agreed cartel legislation. And we have no common tax policy, so that the multi-national corporation is in a better position than anyone else to take advantage of the tax havens, which is not exactly desirable for purposes of social and tax equity. So we need something to match this development.

As for the Eurodollar Market, it is quite clear that it might run into trouble if there were too many medium- or long-term commitments out of short-term resources. Now within a country I think the prejudice against this so-called intermediation is obsolete, because we have central banks which can meet problems when they occur. But on the European level, there is no central bank. The market might, therefore, suddenly collapse. And we really have no other solution, for if the American Government were to provide funds, that would be quite wrong for the American balance of payments in its present situation. Another problem is that this is a terribly unstable market where the rates shoot up or down, and the capital value of the issue is accordingly very unstable, because there is absolutely no instrument to act as a stabilising influence. And the third element, which I think was shown very clearly by Dr. Aschinger yesterday, is that the Eurodollar Market has an interest rate equalising effect. This is all very well for reasonable competition: the trouble is, however, that as long as we have separate economies there are serious balance of payments reasons for being able to play with higher or lower rates. Here then we already have an effect which at the private level, through the market, acts in a certain direction to deprive the authorities of instruments because this new development has not been matched by similar developments at the public level.

27-12-58 More generally I would be inclined to say that the convertibility of currencies was re-established around 1958 without considering all the conditions which must accompany it in the modern world if it is to be really maintained. And as a result, in the absence of any really established policy, the condition under which it works and can even extend to capital movements is balance of payments surplus. Then of course there is no difficulty in maintaining convertibility—nor, in principle, in ensuring free capital movements; although even so there can, in practice, be nationalistic reluctance to allow this freedom of capital movement. The real trouble occurs however when some countries on a convertibility basis are in deficit: then all the difficulties arise which we are currently witnessing.

Now, having thus established the urgency of action, the question is what are the means of co-ordination. Is it truly enough to talk about the change of interest rate and then leave everybody free to do as he pleases? Is it really enough to submit each government's budgetary draft to the others and then, each having taken cognisance of what the others' projects are, for everyone to remain free to go his own way? On this, I am not even sure that discussion of the overall value of budgetary expenditure and the amount of deficit or surplus is enough. I think we should go beyond this very simplistic appraisal of the influence of public finance. I am at present engaged in a large study of the Common Market, and if anything comes to light, it is the fact that very different types of budgetary expenditure have a very different effect on the competitiveness of an economy. The effect on competitiveness, that is, in the last resort, on the maintainable exchange rate is very different depending on whether one develops prestige projects, with no real spin-off or fall-out for industry, or education and infrastructure investment. So there is more to be done. And I venture to say that co-ordination is not only making things compatible; it is not only harmonising current practices, that is, having a half-baked compromise between equally wrong practices. Co-ordination, if anything, has to mean developing a new kind of policy that is different from anything done at present.

In fact this is the chance for Europe because, curiously, in every country the key problems remain indefinitely unsolved. Who has a satisfactory tax system? Who has a satisfactory agricultural policy? Who has a satisfactory incomes policy? Who has a satisfactory regional development policy? The advantage of being together is that everyone grows impatient and then wants to solve the problem of stability, growth, social equity and even the insoluble problem of agriculture. They can only do this by doing something new, by trying to have a policy which really reconciles growth with stability, and savings with a more equal distribution of income. However, if I were to develop my own ideas about this, it would become a speech about my own political leanings instead of being a lecture about monetary integration. What I want at least to show, though, is that whenever we apply the instruments which the European Community has given itself, then we should always think in terms of the incidence on the overall equilibrium. There is no reason to give money because some unemployment has been created unless we press the country concerned to apply at the same time a reflationary policy which will make for the redeployment of labour. There will be no real effect from a technological policy unless there are so many projects at the same time that we can have a more or less balanced allocation of work which does not deprive us of the advantages of a rational division of labour. Even defence if we began to look at it in common terms at European level might provide some contribution. In other words, one of the steps towards monetary union is to combine all the separate funds with their separate rules into some form of a common budget for agriculture, unemployment compensation, workers' redeployment, defence, technology and so on together with a European Bank, so that all these fields are assembled and considered as a whole with their effect on equilibrium between various areas and so that these instruments can be used as a lever to bring about the proper policies with the members concerned.

The second thing which we need, as I have shown, is a tax reform for Europe, and one which would probably be very different from the tax system which we have, because we have not yet found the proper means of really favouring investment and savings without at the same time provoking some trouble. Because up to now, we have taxed income from savings less than income from labour, and every now and then this leads to social unrest. I will not develop this now, but I am sure there are other techniques which could at the same time be more effective and more equitable to solve this absolutely essential problem—more essential even in Britain than on the Continent—of giving the proper incentives to saving and to investment.

But finally, the most essential feature on the way towards monetary integration, that is full convertibility and fixed exchange rates without disequilibria, will be a new type of incomes policy. This has come to be a rather unpopular word, because it has not been administered the proper way. It has been everywhere a kind of wage freeze under disguise. I am sure there is much more to be done under the name of incomes policy than just this very short-term type of policy. We have to have a motion on how wages should be differentiated so as to bring about growth and avoid local shortages in particular industries. We have to look for a means of having the fastest possible development of the most dynamic industry for the benefit of all. And instead of the self-defeating attempts at a kind of equalisation that would prevent the useful differentiation of wages, we have to look for the long-term means which will of themselves bring about a mechanism of more equality. This means more education and more training, which reduces the gap between the specialist and the nonspecialist; a regional development policy with all the necessary infrastructure to reduce the gap between the wages in the various areas; and a faster elimination of laggard industry to reduce the gap in remuneration between the various industries. This is the kind of policy which we have to conceive and strive for. And of course, beyond that, we also need a more dynamic banking system in all of our countries, which can contribute to faster rates of growth. Because we should never forget that while we are very satisfied with $4\frac{1}{2}\%$ a year, at the other end of the earth, Japan considers that 10% in real terms is a sign of recession, since in a good year she achieves 15%.

Reserve consolidation and British entry

Now beyond these measures of real integration—that is doing something new because there are more countries, there are more means and we can do away with all of our routine—there is of course the question of short-term adjustments. The question is whether we should limit ourselves to a network of reciprocal stand-by credits, or whether it is not better to consolidate these into a European reserve fund. You will not be surprised if I prefer the second solution, which has the advantage of giving the real lever to co-ordinate something more than what has been done up to now—that is the credit policy. Because, if you look at the way credit policy is managed in any particular country, you will see that it is not only done by instructions from the central bank, but that the central bank is also the ultimate lender. Now whether a European Fund would use rediscounting or open market operations does not make any difference. It would be a last resort lender, and this is the way you can really influence policies, and particularly policies in the field of credit.

This could also help, of course, in the solution of the problem of British entry. This has been discussed inevitably under the dual aspect of the current balance of payments and the accumulated sterling balances. It seems to me that there is one point that should be stressed. There is no denying that there are current difficulties. Even if this year a surplus replaces continuous deficits, this does not solve the problem and what is at stake is to some extent a structural adjustment. But this structural adjustment has already been initiated. The role of I.R.C. is, I think, a very important example of the kind of things which could be done elsewhere. But as long as it is done really only in Britain, this is going to give this country, after a number of years, a competitive edge. Looking at the relation between size of firms and, for instance, the level of wages, we find a very nice correlation which might help solve at the same time the problem of competitiveness and the problem of higher wages, that is of less labour troubles. Another contribution, whatever one thinks in political terms, is the progressive elimination of the very heavy burden of balance of payments of the commitments East of Suez. The other influence which, I understand, is very greatly discussed in this country, is the attempt at starting a new growth of industries by the selective employment tax. And finally, although I do not think that a final decision has been reached on this, the fact that Britain would gradually join the Common Market would probably lead to a replacement of what has for long been a policy of relatively low wages based on low food prices, by a policy of higher wages, which provide a much stronger incentive for modernisation, automation and overall investment. What Britain has not solved yet is the problem of increasing the rate of saving, which is decidedly lower than in the Continental countries, and probably the problem for all your Chancellors of the Exchequer is that whenever they have the courage to increase taxes they loose as much as they gain because British consumers reduce their saving rather than their consumption in order to pay their taxes. This means that the kind of tax reform I was alluding to may very well be considered in this country. Another thing which could be useful would be the eventual adoption of the tax on value added because, being a tax on consumption, it has the dual effect of discouraging consumption, that is, making for increased saving, and making it possible to reduce the punitive rates on income, particularly on income from work.

But then, what may be the advantage for Britain, and how might a solution evolve itself? One important aspect for Britain would be not only the increased competition but also the very central role of London as a financial centre for Europe, as a very large financial market. Now the vague problems which have been discussed are, of course, the accumulation of sterling balances and whether the Basle Agreement is enough or whether we should try and have a more organic and lasting solution, and whether this should be done on the international level or on a European level. My feeling is that when you look at the real situation it does not make much difference, and there is no reason why we could not have a solution on the international level coupled with a European fund. This latter would serve several purposes at the same time concerning co-ordination of all kinds of policies including credit policies as described before. But it would also materialise the role which Continental Europe is playing anyway. If you look at the figures, you discover that the financing of Britain comes mostly from the European Continent even if it does not look that way and even if there are American credits time and again. For as long as the US itself is in deficit, this is only a sham solution and the money which the US is giving Britain is in fact money which is channelled through the US. The US, however, has the great skill to act as the financial channel whereas Europe has the great lack of skill of being the real source but not deriving the real advantages from that position.

The political obstacle

Now of course everybody will say this advance to new systems of budgetary procedure, new budgetary conceptions, a new tax system, a new banking system, all this and even some common technology, agricultural or defence policy, this is all very fine, but do we have the political instrument? Would not such policies presuppose a far greater degree of advance in the direction of political union, which is to some extent a condition for monetary integration and monetary union? My answer would be that the real difficulty in trying to conceive political union is that we do not see very clearly what the stages are. We have been able to devise many gradual steps towards economic integration. This can be clearly described although we are stuck at points. In terms of political union, this is much more difficult, because when it comes to foreign policy it presupposes almost an overnight change in regard to what is the essential character of a national government. But then the answer should also be that there is already something political in the Common Market as it stands, because any step which is taken affects in a different way the various social categories in a country. And this is already one sense of politics. In theory, the EEC has another political implication which is the common commercial policy. It is well-known that the larger part of the work of all the foreign services is commercial policy. Now economic union and the steps towards monetary union are also political in a very wide sense of the word. So I venture to say that in taking those steps, instead of bumping into the objection that we are not yet ripe for political union and political institutions, we are already almost unconsciously following the real way towards political union. This could then be recognized as such as soon as we at last acknowledge the fact that what we have are mock foreign policies. We play a lot of theatre, we try to appear on the world stage, but we are not, as separate countries, influencing world affairs. The real sign of a foreign policy is that it has a decisive effect on the history of the world and the real condition for it is that it is the common policy of an enlarged Europe.

Discussion

Mrs. Troeller, University of Surrey: You said that the introduction of further fluctuation in exchange rates would lead to economic nationalism. Now I wonder if we had fluctuation within a much wider band, whether the governments would then not be obliged to co-operate to keep these fluctuations under control. Would that not be what you are looking forward to, and that is, more co-operation? Secondly, do we have to continue to try and equal the Japanese growth rate? Are we really obliged to go in for quantitative growth rather than asking ourselves if welfare is really increasing with these growth rates?

Uri: On the first point, I wonder whether you are not mixing up somewhat the necessity of co-operation as an exercise in co-operation with the real aims it serves. I am interested in seeing that we have some policy in common which leads exactly to what you defined in the second question, rather than just being obliged because we adopt a certain system to act together to limit the ill effects of what we have first decided upon. As to your second point, unfortunately the nature of things is that the first condition for more welfare is more production. I am only interested in growth, first, in order to eliminate extreme poverty, which we still have, which the Americans still have, which everybody still has; second, provided it gives us many more amenities of life; and third, as New York is now showing, as this is also the price to pay for more culture. I think we are still far from the point at which we could say that we have grown fast and far enough. But I fully agree that the aims are not growth for the sake of growth, except that in terms of welfare it makes things easier rather than more difficult provided we know how to administer it.

G. Luke, Press Association: Is there any one specific monetary problem in regard to British entry?

Uri: The key issue is the balance of payments; the second issue is whether to consolidate the balances. I am afraid that it is not very original but unfortunately we have to live with it. My own view is that entry into the Market, provided it is progressive enough, would by itself contribute to a solution. I also think that some of the longer-term measures taken in this country will have their effect after a while. You can always remark that Governments benefit from the good actions taken by their predecessors or the mistakes made by their neighbours, and usually do not themselves reap the benefit of the useful things they do. Because the real nature of economic action is that it takes some time except, of course, for very short-term action, which usually overshoots the mark. But I think that action taken in Britain may make for a change in a matter of five years. My real difficulty is to understand why one should think in terms of a short-term transitional period and, even worse, why one should think in terms of various lengths of transitional period for various things, for instance, the removal of industrial tariffs and the adoption of a common agricultural policy. Why not one transitional period once and for all? Five years do make for a lot of changes in this world, particularly, I am sorry to return to this, it enables Japan to double its national income.

E. Strauss, Milk Marketing Board: I heard with some amazement that M. Uri claimed British entry into the Common Market would improve the balance of payments. There is little doubt that on agriculture there would be a very heavy burden on the British balance of payments. I think it is also generally agreed that on capital movements there would be a substantial net burden. Could M. Uri specify the items on which he expects such an improvement in the British balance of current accounts?

Uri: You must distingush between the long-term and the short-term effect. You may also have noticed that I did not take the common agricultural policy for granted, because if it were not adjusted it would just be impossible for Britain to join. At the same time I do not think it makes much sense to keep it on exactly its present basis. So the real issue is the competitive position of manufactures with protection falling over a period of years. This is where I assumed the present re-structuration of British industries could give a competitive edge provided it is not limited. One always focuses on a few firms. The real problem is how to spread progress all around the economy and this takes more time and incentives. In the Common Market we have witnessed that progress at first was limited to a few modern firms which were in any case interested in exporting. The great effect is to spread the progress all around the economy so that all of a sudden family business awakens to the real danger and the necessity of modernising both its equipment and its management. Of course this cannot be measured, but the most difficult problem in economic progress is not with the forward section of the economy. It is with the rank and file and up to now there has been no other system than competition, that is the Common Market. On the whole, I do not see any reason why Britain could not export manufactures on a larger scale than it does, particularly to the Common Market. Apparently before devaluation you had a price problem: after devaluation, and thanks to the very generous price increases in practically all other countries, you have a problem of overspending in excess of demand, because whatever the screw applied by the Chancellor of the Exchequer, you do not have sufficient savings. For with insufficient savings you can be competitive but there will still be no incentive to export because internal demand is so much easier to satisfy. Then you are in trouble. The real issue for Britain is to devise a rather substantial change in your tax system, which would give a much greater inducement to savings than at present.