

The Hague, July 6 1976

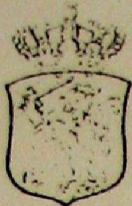
Dear colleague,

For several reasons I was very disappointed that the meeting of Ministers of Finance of the European Communities planned for last Monday had to be cancelled. I sincerely hope we shall be able to agree on another date for a meeting in the next few weeks. In view of the importance all of us attach to the coordination of our economic and financial policies, a view that was strongly endorsed by the recent Tripartite Conference, I would consider it unfortunate indeed if we were to fail in meeting our obligations with regard to the consultations on quantitative guidelines for the draft public budgets for 1977.

A particular point I had wanted to raise during the meeting was to inform you of the ideas in our area of interest which Prime Minister Den Uyl intends to bring up at the coming meeting of the European Council. I would like to briefly indicate the general lines of his position in this area.

There appears to be a general consensus on the urgent need to strengthen the internal economic and financial coherence of the European Communities. This view has been expressed by the European Council at previous meetings, by Prime Minister Tindemans in his report to the European Council on European Union, and by the recent Tripartite Conference. We believe that the Community should indeed seriously attempt to reinforce its policies and procedures in the two related areas of economic policy coordination and monetary relationships.

On economic policy we would suggest that the medium-term economic policy programme of the Community should be made to play a central role in a periodic review of national programmes. These national programmes should be examined both on their consistency with the agreed Community programme and on the objective that national measures shall not jeopardise the functioning of the common market. The results of these reviews should be included in the Annual Report on the Economic Situation of the Community. The utilization of Community funds should be geared as much as possible to the objective and measures commonly agreed to in the Medium Term Economic Policy Programme.



- 2 -

All member-countries should commit themselves to follow the guidelines of the medium-term programme. In order to reinforce the process of convergence of economic policies on that basis, the credit mechanisms of the Community should be made instrumental to that end. In particular, we might examine the possibility of granting credits in tranches, the release of following tranches to be made conditional upon the countries concerned satisfying the policy conditions.

We are worried about the exchange rate developments in the Community. There is at present no effective Community framework for the coordination of policies in this area among all members, while recent developments have surely indicated the urgent need for common action. The large movements of exchange rates have affected our relative competitive positions, in some cases rather strongly, and have created pressures for protection. Moreover, there is a danger of a growing divergence between the countries that participate in the European snake arrangement and the other countries.

A weakening of the snake arrangement, which would allow these other countries to join, does not seem to us the best way to bridge the gap. Rather, we would suggest creating a general Community framework for consultation and surveillance of exchange rate policies, based on the "guidelines for floating" which we have already agreed to recommend for adoption in the context of the International Monetary Fund. As you know, these guidelines centre around the concept of agreed "target zones" for exchange rates. I would emphasize that the guidelines do not impose any obligation on a country to keep its exchange within these target zones, but they do create the presumption that countries will not engage in policy measures which are designed to push the rate away from the target zone. Periodic review of the target zones, and Community surveillance of national policies on the basis of such guidelines, could provide the start of an effective framework for Community action in this area.

As I mentioned, I had planned to lay these ideas before you in an informal manner last Monday. That meeting having been cancelled, I felt it my duty to give you some brief indication of our thinking on these matters in advance of the meeting of the European Council next week. May I ask you to treat this letter as informal and confidential. Please feel free, however, to inform other members of your cabinet, in particular those responsible for Economic Affairs.

With warm personal regards,