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Establishment of a European Loan Council

Motion for a resolution
tabled by Mr R.W.G. MACKAY and other members of the Assembly

Explanatory Memorandum

INTRODUCTION

The constitution of a European Loan Council with powers specified in the project, or even with considerably less extensive powers, presupposes the existence of a central political authority with administrative and legislative powers. In the absence of such authority it is inconceivable that the participating Governments would agree to a curtailment of their financial independence such as is stipulated in the project. Indeed, even if they were to agree, the scheme would be doomed to failure.

Likewise, it is a preliminary condition to the success of the project that there should be a high degree of general economic integration and that simultaneously with its adoption the project for the establishment of a Bank of Europe and the project for the establishment of a unified European trade area should also be put into^operation.

I

The sphere covered by the objects of the Council is closely linked with the spheres of the Bank of Europe and the European Trade Council. Between them these three organisations provide for the financial and commercial integration of Europe. Since they affect to a large degreo the planning of production, they also perform to a considerable extent the task of general economic integration even though some other organisation is needed for the achievement of that task.

II

Although the project is meant primarily for Europe, overseas countries connected with European countries may also participate. Their participation in this project is not so essential a condition to the success of the project as their participation in the Bank of Europe scheme. Although it would be a advantage, it is conceivable that Dominions and other self-governing overseas territories would continue to retain their financial independence in spite of adopting the unified European currency.

In view of the extent to which the Council will affect the internal economies of the countries concerned it is essential that each country should be represented on it and that the Council should meet at least once a year in the capital of each one of the participating countries, even though it should hold most of its meetings in Strasbourg.

The determination of the voting power of the members of the Council is a very difficult problem; The fact that same quota which determines the voting power will also determine the contribution of participating countries to the service of loans issued by the Council may probably tend to moderate otherwise excessive claims for high quotas.

Since the Council, owing to its size, is rather unwieldy for the conduct of day to day business, a smaller Executive Board is necessary. On this Board the number of seats will be equally divided between the four leading powers and the remaining participating countries.

III

The most important task of the Council will be the co-ordination of the capital issuing programmes of the participating countries. This is essential in order to avoid competive investments and in order to prevent any individual country from securing for itself an undue share of the combined resources of the European Union.

Co-ordination should cover not only long term loans but also short term borrowing, though in respect of short term private borrowing and even of short term Government borrowing the participating Governments should retain a considerable degree of freedom to determine their own requirements. This is essential- as a safety valve against the undue rigidity of co-ordination which might otherwise cause much inconvenience, especially during the early phases of the adoption of the scheme.

Co-ordination shall not be confined to Government issues or issues by other public bodies, but also borrowing or issues of share capitals by pi'ivate interests. If it were confined to public flotations it could be evaded by placing large amounts of shares or debentures privately or by financing production to an undue extent by means of short term credits. It is true thatrules laid down for the limitation of credit expansion in the Bank of Europe scheme would set a limit to financing by bank credits. Even so, it is essential that the Council should at least have the power of following closely what happens in this sphere even if it has no power to veto credit expension insofar as it conforms to rules.

IV

The difficulty is that the Governments are not in a position to plan their borrowing programmes too much ahead, and time is bound to be, therefore, short for the co-ordination of their programmes and for the settlement of any disagreements arising from it.

It is essential ro realise, however, that the programmes of the individual Governments or the European co-ordinated programme must not be regarded as something final, but merely as targets set by the authorities concerned, which are liable to modifications in the course of the year which it may cover. In the course of time the technique of elaborating such projects and considering them will undoubtedly improve and the initial difficulties will become mitigated.

In respect of the co-ordination of programmes, as indeed in respect of economic integration in general, the ultimate decision must rest with the central political authority. It should be the aim of the Council and of the participating Governments not to resort to the intervention of that authority more often than is inevitable.

The part to be played by the Council in respect of new issues varies according to whether the issues are to be made in the domestic markets of the issuing country or outside its boundaries. As a general rule the Council should allow a free hand for participating Governments to make their own arrangements in their domestic markets within the framework of the integrated plan. On the other hand, capital issues and credit transactions outside the participating countries must be made under the supervision of the Council. It is essential that the Council should keep close watch over any external borrowing activity whether it takes place in another participating country or in a non-participating country. It shall have to collaborate closely with the Governments concerned and with the Bank of Europe to check any unwanted capital transactions.

V

The Council itself shall have the power to issue loans of every description within or outside Europe. In order to assure participating countries that their markets would not be flooded with issues on behalf of other participating countries it shall be necessary to obtain the approval of the Government of the country in which the Council proposes to make an issue. The obligations of various kinds issued by the Council shall be guaranteed by all participating countries. This will have the advantage of securing more favourable terms for countries which, owing to their financial weakness, might otherwise have to borrow on very expensive terms if they should be in a position to borrow at all.

Each Government shall participate in the interest and repayment charges of the loans issued by the Council in proportion to its quota. In order to avoid partial default oe delay in respect of payments by the Council in case of default or delay by some of the Governments it is essential for the Council to have a substantial reserve. In order to be able to build up such a reserve the Council shall be entitled to issue loans not only for the specific purpose of providing funds required by a particular country, but also for its general purposes. The possession of a large reserve would enable the Council to grant loans and credits to participating countries without having to issue immediately new loans for that purpose. This would make it possible for the Council to choose the best possible moment for its loan operations and it would enable it to grant urgent assistance in cases of emergency.

VI

The ultimate end is that the Council should become the sole borrower on behalf of all participating countries and also it should become the sole debtor, at any rate as far as Government loans are concerned. Just as there are no separate English, Scottish or Welsh public debts, there should be no separate British, French, Italian, etc. public debts once the process of European integration is completed. The national loans issued in national currency must be replaced eventually by European loans issued in terms of European currency. Even before the bonds could be replaced the outstanding debts of participating Governments should be deemed after a certain date to be debts of the European Union. Such a unification of the public debt involves some problems. While the participating Governments can deal with their internal debts at will subject to the approval of their parliaments, it is necessary to negotiate conversion agreements in respect of external loans. Creditors outside the European Union may not want to agree to a replacements of their claims in Dollars or other currencies by claims in the unified European currency. For this reason the Council will have powers to issue obligations in any currency, though it should only issue loans in currencies other than the European currency to specified external creditors.

Another problem will be the standardisation of the types of loans. As there are many types in existence in each participating country, in the absence of such standardisation there would be an almost infinite variety of types. For the sake of simplification their number should be reduced as far as possible.

Insofar as the Council issues obligations not for its general purposes but to replace existing loans of participating Governments or to issue new loans for their requirements, the obligations issued would be covered by dual-guarantee. They would be the direct obligations of the Governments concerned and also the obligations of the Council.

While the ultimate aim is that each participating country should contribute towards the European debt according to its quota, during the transition period each Government must provide the necessary funds for the maintenance of the services of their obligations even after they have been taken over by the Council. As far as internal loans are concerned the Governments remain in charge of maintaining the interest and repayment services except in case of default, in which case the Council will take charge. In respect of external loans, on the other hand, the Council shall assume full charge from the outset.

VII

It is not the intention of the Council to de away with private issuing activity altogether. While it aims at assuming eventually full charge of all Government issuing activity, it has no such aims in respect of non-Governmental borrowing or capital issuing. In that sphere it is necessary to distinguish between domestic and external issues. In respect of the former the Council's role will be confined to co-ordination. In respect of the latter the Council could assist potential borrowers in negotiating the transactions. It would not, in any circumstances, grant guarantees to non-Governmental issues but, if such guarantees are granted by the participating Governments, then the Council's role will be the same as in the case of straight Government issues.

VIII

It will be necessary to discriminate between two reserves. The Council will have a large reserve fund raised by means of loan operations for the purpose of covering deficiencies due to partial defaults or delays in the provision of loans services by all Governments, and for the purpose of granting loans or credits without having to mal immediately corresponding issues. The Council will also have a reserve to cover its own expenses. The two reserves should be kept strictly apart. The aim should be that the Council should always have enough funds in hand to cover anticipated expenses during the current calendar year and the following current calendar year. The fund serving that purpose shall be built up and replenished out of regular contributions by participating Governments. It should serve the purpose of covering administrative expenses only. Any expenses arising from the issues made by the Council must be refunded by the participating Governments as and when they arise. Likewise, insofar as the Council acts, directly or indirectly, as paying agent for loans by participating Governments the latter shall refund the expenses incurred.

IX

The integration of European public debt presupposes a reasonably stable budgetary position in the participating countries. It would have served little useful purpose during early post-war years to attempt such integration in view of the disorganised budgetary conditions that prevailed in most European countries. Even at present the budgetary position in some countries leaves much to be desired. While it is too much to expect

all of them to balance their budgets completely, they can reasonably be expected to reduce their budgetary deficits to proportions at which they de not endanger financial stability. It is also essential that the unduly high proportion of floating debt created during the war should be reduced.

The way for eventual integration should be prepared by gradual progress towards the standardisation of the types of Government loans.

In order that the initial difficulties of the Council should be reduced, each participating Government must clear out of the way any default or litigation arising from its public debt before it can join the project. In exceptional cases the Council may accept participations by Governments which are unable to cope with their external debts owing to losses through the war. The overwhelming majority of participating Governments must, however, be solvent when joining the project in order to be able to carry the additional burden caused by the insolvency of one or two weaker Governments.

X

Co-ordination with the Bank of Europe is essential because the two institutions form part of the same broad scheme for financial integration. While the Bank is concerned with currency and short term credits, the Council is concerned with long term loans and capital issues. There are bound to be spheres in which the two organisations overlap, and their close collaboration is, therefore, essential.

The work of the Loan Council and that of the Trade Council constitutes largely two aspects of the same thing. The policy of the Loan Council goes a long way towards determining the trends of both intra-European trade and of trade between Europe and other parts of the world. Conversely, the policies pursued by the Trade Council are liable to result in changes in the balance of payments which again may have to be dealt with by means of external capital transactions. Conflicting policies of the two organisations might endanger the success of economic integration. Their close co-operation is therefore essential.

Draft protocol for the co-ordination of european capital issues

CHAPTER I

Name, Seat and Objects of the proposed European loan Council

ARTICLE 1

There is constitued an organisation under the name of European Loan Council (hereinafter referred to as the Council).

ARTICLE 2

The seat of the Council shall be situated at Strasbourg in the Republic of France.

ARTICLE 3

The objects of the Council are :

to promote the financial and economic, integration of Europe through co-ordinating the capital issues of the participating countries; through supervising their capital issues outside their own markets; through issuing unified European Bonds, Stocks or other obligations on their behalf or for the purpose of allocating the proceeds to them; through providing them with unified Bonds for issue on their respective domestic markets; and through replacing their existing internal and external indebtedness by United European Bonds, Stocks or other obligations.

CHAPTER II

Composition of the Council

ARTICLE 4

Every member of the Council of Europe shall participate in the project. Countries outside the Council of Europe belonging to the Commonwealth, Empire or Currency Union of the participating country shall also be invited to participate.

ARTICLE 5

Each Government of a member state shall nominate a permanent representative to the Council who shall be a permanent resident at the seat of the Council.

ARTICLE 6

The members of the Council shall elect amongst themselves a Chairman and two Deputy Chairman for a period of twelve months. Each member shall bo Chairman and Deputy Chairman in rotation.

ARTICLE 7

The Council shall meet at the seat of the organisation as of ten as it deems it necessary. It shall meet at least once a year in the capital of each of the other participating countries.

ARTICLE 8

The voting power of members of the Council shall be determined according to a schedule to be agreed upon later.

ARTICLE 9

There shall bo established an Executive Board of eight Executive Directors. France, Italy, the United Kingdom and Western Germany shall each appoint a permanent Executive Director, the remaining four seats shall be filled by the nominees of the other participating countries in rotation. Each nominee shall hold his post for four years.

ARTICLE 10

The Executive Board shall elect among its members a Chairman and a Deputy Chairman. The Chairman shall hold office for four years and shall be eligible for re-election. During his term of office he shall not be liable to be removed except by decision of the Council by a three-quarters majority.

CHAPTER III

Co-ordination of European Borrowing

ARTICLE 11

Each Government of a member of the Council of Europe shall submit to the Council each year not later than on 31st October a full list of the intended capital issue operations during the following calendar year. The list shall include loans, both long term and short term, on account of the Government, local authorities, public corporations of every description, and of private interests. It shall also include proposed issues of share capitals. It shall also, include capital intended to be placed privately, and intended credit transactions which de not involve public offering of securities.

ARTICLE 12

The Council shall examine the lists submitted by the participating Governments during the course of November and shall elaborate a plan providing for their co-ordination. The plan shall be submitted to the Governments not later than the 30th November.

ARTICLE 13

If any participating Government should object to the modifications of its plan of capital operations by the Council, it shall communicate such objections to the Council not later than the 10th December. The objections shall be considered by the Council and it shall communicate its reply to the Government concerned shall be entitled to appeal against the Council's decision to the Central Political Authority. In respect of short-term borrowing in the domestic markets, the Government concerned is entitled to overrule the Council's decision after consultation with it.

ARTICLE 14

If, during the year for which the co-ordination plan has been approved, any Government should wish to modify its national plan, it shall ask the Council's approval. The Council shall communicate its decision within a fortnight after receiving the application.

CHAPTER IV

Supervision of External Loans

ARTICLE 15

The participating Governments and the nationals of the participating countries shall be free to make their own arrangements regarding capital.issues in their own respective countries.

ARTICLE 16

Any capital issues or credit transactions outside the participating countries, whether in another participating country or in a nonparticipating country, shall be supervised by the Council. A representative of the Council shall participate in the negotiations and the terms of the loan or credit agreement shall be submitted for its approval.

ARTICLE 17

The participating Governments shall collaborate with the Council to enforce the provisions in the co-ordinated plan, providing for loan, share or credit transactions abroad. Restrictions on capital movements not authorised by the Council shall be maintained and enforced.

CHAPTER V

Loan Operations

ARTICLE 18

The Council shall be authorised to issue bonds, stocks or bills in the markets of participating countries or non-participating countries. No such issue in participating countries shall be made without the approval of the Government concerned.

ARTICLE 19

The bonds, stocks or bills issued by the Council shall represent the joint obligation of all participating Governments. They are jointly and severally responsible for the interest on the issues and for their payment in accordance with the terms of the obligations.

ARTICLE 20

It is the ultimate aim that each Government should contribute towards the interest and repayment of the obligations issued by the Council in proportion to a quota equivalent to its voting right on the Council.

ARTICLE 21

Any Government which is in default in its contribution towards the service of the obligations shall not be entitled to exercise its voting right until it has made good its default. Prolonged default might entail further penalties, such as the suspension of the loans authorisied for the nebefit of the country concerned or the expulsion of the Government from the organisation.

ARTICLE 22

The Council shall be entitled to issue obligations for the specific purpose of providing funds required by any participating country, or for its general purposes. Funds raised for the latter purpose shall be allocated to participating countries as and when the Council consider this fit.

CHAPTER VI

Unification of European Public Debt

ARTICLE 23

Within five years from the date at which the Council shall assume its functions it shall issue obligations in terms of unified European currency to replace the internal obligations of the participating Governments that are outstanding at that date.

ARTICLE 24

The Council shall issue obligations in terms of unified European currency or of non-European currencies to replace the external obligations of the participating Governments in relation to non-European countries.

ARTICLE 25

From a date to be agreed after the establishment of the Council all debts of each Government outstanding on that date are deemed to bethe debts of the European Union. The Council shall assume responsability for their services.

ARTICLE 26

The Council shall endeavour to obtain the conversion of the obligations for which it assumes responsibility into a reduced number of unified types of obligations.

ARTICLE 27

In relation to creditors the Governments concerned remain fully responsible for their respective liabilities. The responsibility of the Council shall be in addition to, not in replacement of, the liabilities of the debtor Governments. Each obligation issued by the Council in replacement of existing obligations shall indicate which Government shall remain primarily responsible for it.

ARTICLE 28

Pending the completion of economic integration the participating Governments shall remain primarily responsible for the maintenance of the interest and repayment service of their internal obligations in accordance with the terms of the respective contracts. In this respect the position shall not change after the initial obligations have been replaced by unified European obligations. In respect of such internal debts the Council's role shall normally be confined to supervision of the execution of loan agreements by the Governments concerned.

ARTICLE 29

If at any time a participating Government, should find itself unable to carry out the terms of its internal obligations in respect of interest or repayment it shall apply for assistance to the Council. Such assistance shall be granted in compliance with the Council's guarantee of the debts of the participating Governments. The Council shall then assume charge of the internal debt service of the Government concerned and the latter shall the necessary revenues for securing the amounts required for the purpose.

ARTICLE 30

The Council shall assume responsability for the services of external obligations of participating Governments. Each Government with external obligations shall pay into a common fund the amount required for the discharge of such obligations.

CHAPTER VII

Non-Governmental Obligations

ARTICLE 31

In respect of non-Governmental internal obligations of the participating countries the Council'srole shall be confined to co-ordination in accordance with articies (11) to (14). Such obligations shall continue to remain obligations of the existing debtors and any new capital transactions by non-Govern mental borrowers shall continue to be carried out by such borrowers on their own responsibility subject toco- ordination by the Council.

ARTICLE 32

In respect of external non-Governmental capital transactions of participating countries the Council shall lend its assistance if requested to de so by the Governments of the countries concerned. Such assistance may. consist of assisting in the negotiation of the given transactions or assuming charge of the services of the obligations arising from them or, in case of State guaranteed obligations, adding the Council's guarantee to that of the Government concerned.

CHAPTER VIII

Financial Provisions

ARTICLE 33

The participating Governments shall contra bute towards the expenses of the Council in proportion to their quotas. They shall make an initial contribution corresponding to the estimated requirements of the Council for two years.

ARTICLE 34

After the end of the first twelve months period the participating Governments shall contribute an amount that is to enable the Council to keep in reserve a fund corresponding to twelve months' requirements in addition to the funds required during the next twelve months.

ARTICLE 35

Any Government which falls in arrear in respect of the payment of its contribution towards the expenses of the Council shall hot exercise its voting right during the period of its default.

ARTICLE 36

Each Government shall contribute to the fund expenses incurred by the Council in connection with the issue of loans on its behalf of for its benefit.

ARTICLE 37

Each Government with external debts shall contribute to the fund the expenses incurred by the Council in assuming charge of its external obligations.

ARTICLE 38

Any Government which shall default on its internal obligations shall indemnify the Council for any expenses incurred in connection with assuming charge of such obligations.

CHAPTER IX

Transitional Provisions

ARTICLE 39

Pending the unification of European debt each Government shall undertake to endeavour to consolidate its budgetary position so as to ensure that the service of its outstanding indebtedness shall be covered out of current revenue.

They shall also endeavour to reduce the proportion of floating indebtedness.

ARTICLE 40

The participating Governments shall endeavour during the transitional period to conform in respect of new issues to standards in respect of terms that shall be laid down by the Council.

ARTICLE 41

Any participating Governments which have obligations in default or obligations that are subject to litigation shall endeavour to clear such positions before the Council shall assume responsability for their obligations.

CHAPTER X

General Provisions

ARTICLE 42

The Council shall maintain close relations with the Bank of Europe, in view of co-ordinating its policy in respect of capital issues and credits with the Bank's policy in respect of intra-European payments and transactions with non-participating countries. In case of disagreement the dispute shall be submitted to the Central Political Authority.

ARTICLE 43

The Council shall maintain close relations with the European Trade Council, in view of co-ordinating its plan for capital issues with the trade plan. In case of disagreement the dispute shall be submitted to the Central Political Authority.

Signed (see overleaf)

Signed[1]*:*

MACKAY R.W.G., United Kingdom, SOC

1. SOC: Socialist Group