

'Common Market: the role of the pound under discussion' from the Corriere della Sera (1 April 1971)

Caption: On 1 April 1971, during negotiations held in Brussels on the accession of the United Kingdom to the European common market, the Italian daily newspaper Corriere della Sera examines the future role of the pound sterling within the European Economic Community (EEC).

Source: Corriere della Sera. dir. de publ. Spadolini, Giovanni. 01.04.1971, n° 77; anno 96. Milano: Corriere della Sera. "MEC: in discussione il ruolo della sterlina", auteur:Sansa, Giorgio , p. 6.

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Problems surrounding British accession to the European Community

Common Market: the role of the pound under discussion

From our correspondent

Paris, 31 March.

Valéry Giscard d'Estaing, Minister of Finance, yesterday presented the French memorandum of 18 March on the problems of the pound sterling to his Common Market colleagues. Nothing has been revealed about what happened at this meeting. Last Friday, Maurice Schumann, Foreign Minister, received the British Ambassador, Sir Christopher Soames, in Paris and stressed the need to discuss the status of the pound sterling as a reserve currency and the issue of sterling balances, together with the British application for accession, proposing that the currency problems be debated in secret on condition that they were tackled at once.

The presentation of the French memorandum, two weeks earlier, had received a degree of exposure that Paris itself had not intended. The British press was alarmed at the French initiative and some journalists went so far as to claim that France was about to prepare another veto. Mr Schumann has, in the meantime, twice rejected such an interpretation. It remains a fact, however, that few had predicted this step by the French and that everyone is wondering what their intentions are. It should be added that, although certain governments view the initiative itself as precipitate, some of them, like the Italian Government, are more or less in agreement on the basic issue. But reaching a unanimous verdict among the Six will be fairly difficult. Several theories do, after all, exist on this subject.

The first angle to be considered is the role played by the pound sterling as a currency reserve. Is it compatible with the plan to create a European currency union? Some people say that the prestige of the sterling will reflect favourably on the Community that Britain is about to join and that there is therefore no urgent need to change the status. Others are more concerned about the potential, and extremely serious, risks that may arise from the existence of sterling balances which total more than the available funds from the British Reserve and are, in fact, currently guaranteed by the Basle International Monetary Agreement. These fears reveal another aspect of the problem, namely short-dated foreign sterling accounts that can be claimed without prior notice.

These are risks that would be run, according to a commentator from Paris, if the pound sterling were allowed to maintain its role as currency reserve even after the United Kingdom's accession to the European Community. On the other hand, if there is no creditors' offensive against the British currency (and this is, in fact, considered as improbable) and everything continues just as before, during the period of Britain's adaptation to the Common Market (coinciding with the period of preparation for the currency union, which will not enter into force before 1980), the pound sterling could become the dominant European currency and, given its link to the dollar, Europe would continue to be under the supremacy of the dollar. But such a conclusion cannot be readily accepted without a detailed, convincing technical explanation.

It is a conclusion, it could be said, that arises from the fear that to leave things unchanged might slow down the individual development of the European monetary union that will one day lead to a single European currency, which in turn might assume the functions of a reserve currency worldwide, thus competing with the dollar. Of interest is the opinion expressed by Rinaldo Ossola, Director General of the Banca d'Italia. According to the *Financial Times*, he has proposed a consolidation of the sterling balances that would allow Great Britain to protect itself once for all against the risks of this situation as well as creating a new currency reserve. A consolidation would, of course, be a first step towards giving up the position currently held by the pound sterling.

None of this could be achieved overnight, considering that the psychological repercussions of overly drastic changes must be avoided. It will be necessary to act with circumspection and patience, giving the impression that what is being done is a sign not of weakness but of an awareness of a new strength. There can be no

disagreement on this issue. According to the experts, France, having now taken the initiative, might be satisfied with a British declaration of intent: in essence, a promise that British foreign account balances will be reduced in future, starting with the firm resolution not to let them rise above their current level. But we shall first have to wait for news to be leaked on the debate in Brussels.

Giorgio Sansa