

## 'Breaking the vicious circle', from 30 jours d'Europe

**Caption:** In April 1973, in an article in the monthly publication 30 jours d'Europe, Emanuele Gazzo reviews the monetary policy of the Six and reiterates the need for Community cohesion with regard to the common monetary policy.

**Source:** 30 jours d'Europe. dir. de publ. FONTAINE, François ; Réd. Chef CHASTENET, Antoine. Avril 1973, n° 177. Paris: Service d'information des Communautés européennes. "Sortir du cercle vicieux", auteur:Gazzo, Emanuele , p. 8.

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## Breaking the vicious circle

by Emanuele Gazzo

First of all, three facts: the monetary crisis has settled down, at least for the time being, and there has been a new adjustment of the exchange rates. The Community 'snake' (system of reduced margins between Community currencies) continues to operate, but its composition has changed (the pound and lira are no longer included) and so has its behaviour: head down, it slithers painfully along, supported by a floor which no longer really exists since, on account of the fluctuation (both general and sporadic), the so-called 'tunnel' (margins of fluctuation against the dollar set in Washington when the dollar was first devalued) should no longer be in operation. In fact, the 'tunnel' is visible only to the Governors of the Central Banks, who have retained the right to apply so-called 'impure' fluctuation and can consequently move the tunnel walls daily as they wish without telling a soul.

Secondly, the European Monetary Cooperation Fund, though reduced to its simplest expression, cannot enter into force by the date set at the last European Summit in Paris, because no agreement was reached, in the run-up to 1 April, on where its headquarters would be.

Finally, in Paris, the Americans made a 'political commitment' to support their currency where necessary and recognised that the existing 'parity grid' remains valid. This seems to have calmed speculation, but the Americans' behaviour is still not reflecting any unambiguous will to honour that commitment. The time for major negotiations is fast approaching, and Europeans are wondering whether the United States is planning to keep the fearsome instrument of the non-convertible dollar in reserve; it hangs as the Sword of Damocles over the heads of the European and global economies.

These are worrying facts that provide no scope for comfort. At times, they are contradictory. This is certainly true in the case of the European Monetary Cooperation Fund and the location of its headquarters. Either the Fund is an essential element of the Economic and Monetary Union, in which case its creation can hardly be jeopardised by an argument over where to locate it, or, on the other hand, it is not really so urgent and essential to bring it into being. In the latter scenario, the credibility of all of the Economic and Monetary Union 'machinery', hitherto considered to be the Europeans' priority objective, is called into question.

In its first phase, the Fund is intended to 'provide the necessary dialogue for the efficient operation of the exchange system established within the Community.' The exchange system has been set up (on 11 March), and cooperation is needed more than ever, since there are three currencies outside the system and it appears extraordinarily fragile. The Fund is also expected to 'multilateralise' the balances arising from interventions by Central Banks and intra-Community payments. In other words, it should help the 'snake' to survive. True: Central Bank cooperation, under the Basle Agreement, has the same objective. But it is the obvious inadequacy of that cooperation that has led to the need for the European Fund and its short-term reinforcement.

### Community solidarity

What are the Europeans going to do now? Will they wait for a new storm before making up their minds?

The events of 12 February (devaluation of the dollar) and 16 March (Paris Agreement on supporting the dollar) give rise to a number of considerations, with both negative and positive elements. The overall balance is still not clear.

First of all, it must be admitted that, under the pressure of circumstances, Community solidarity has been only partial. The British pound and the Irish punt continue to float. The lira is floating all alone and falling. 'Partial' solidarity was attained on condition of an exchange rate 'adjustment' (of the mark). The solidarity was not strong enough for the Nine to take the important leap forward suggested by the European Commission, namely immediately to transfer large sums to the Fund and to confer management tasks upon it.

Questions now have to be asked about the reasons for this inadequate Community solidarity, since the latter represents the foundation for the very existence of the Community.

### **A vicious circle**

One of the main causes for this lack of solidarity is, naturally, the priority given to national concerns, not on the basis of principles of doctrine, but because of the need to govern. National leaders are gradually becoming aware that their country's economy develops differently from that of the other Community States. This leads them to take 'national' measures that often serve only to widen the gap. Why? Generally, it must be admitted, they do this because there is no European authority able to impose the appropriate remedy, implement a suitable economic response mechanism and undertake the vigorous structural adjustments that are needed. In other words, European political authority is in short supply.

The monetary crisis from which we have — temporarily — emerged confirms that there is a vicious circle in operation. Since there is no 'European vision' or political authority to 'govern' the economy as a whole, it is inevitable that, sooner or later, economies begin to diverge. As they diverge, States find that they cannot conform to the common rules as they agreed to do so in the past. This is what is leading the Community to become increasingly less of a community.

The danger is obvious and must not be ignored. How are we to break the vicious circle? It is easy to say that we need a qualitative leap and an act of political will. This political will is often demonstrated through words that have limited scope, since there are no instruments to translate them into coherent and continued action. There is no institution that bears political responsibility for this action. The Werner Plan for economic and monetary union was, in itself, a daring gamble on the implementation of 'parallelism' between monetary and economic progress, which is nowhere to be seen and could never have arisen spontaneously out of a state of *laissez-faire*. The Plan's authors, aware of this handicap, indicated the need for some institutional 'strong points', which, unfortunately, did not come about.

### **An enormous undertaking**

These institutional instruments are also needed for the rapid adjustment of activities as events unfold and, potentially, for a change in the established itinerary. For example, at the beginning of the long path towards economic and monetary union, the clouds of monetary crisis still seemed a long way off. Some concepts that were acceptable at the time have ceased to be so. The world seems to be moving towards generalised currency fluctuation. Consequently, there is a need to consider whether, and how, a European monetary model can be implemented and subsist.

It will also be necessary to determine what needs to be done to bring about unity, i.e. a convergence of wishes and interests, without which such a model cannot survive. Consequently, it is imperative to identify the attitude that this unity needs to adopt towards the rest of the world and, essentially, the dollar. Its actions in this context are of fundamental importance for the future of Europe and, probably, the world, since this will most likely lead to a series of actions and interactions in all fields, not only monetary, but also economic, commercial, technological, political and even defence, in every corner of the globe.

Lest we forget: economic unity is founded on homogeneous or compatible reciprocal behaviour of all components. The Community needs to attain this homogeneity without losing the originality, traditions and the overall diversity by which it is characterised. And external pressures mean that this must happen quickly, although by nature the process is a slow one.

It is an enormous undertaking, challenging and fascinating. It requires not only audacity but also patience and modesty.

Emanuele Gazzo