

'Why a European currency?', from Communauté européenne (October 1968)


Caption: In the October 1968 issue of the monthly publication Communauté européenne, the French journalist, Jean Lecerf, compares the Werner Plan with the plan proposed by the Action Committee for the United States of Europe (ACUSE), both of which call on the Six to adopt a single currency.

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Why a European currency?

The Treaty of Rome has little to say about monetary affairs. The monarchical right to mint coinage is a privilege of sovereign states, and one of the most jealously guarded by governments.

A common currency would have been a conceivable starting point for European unification: that is how the Benelux began, with the agreement of 21 October 1943 between the governments-in-exile.

However, one of those who monitored this prelude to European unity from close range believes that that method would not have been a gentle one: 'Monetary unification is a very effective way, even a brutal way, of promoting economic integration,' writes Pierre Werner, Prime Minister of Luxembourg. 'Its ultimate effect is to force the economy into a new mould, at the cost of very serious tensions and pressures.'

When the Treaty of Rome was negotiated, in the aftermath of the failure of plans to establish a European army, there could be no question of moving so fast. But the advocates of a united Europe were indeed relying on economic realities to enforce the eventual adoption of a common monetary standard.

Today, the rise of the eurodollar — a unit of account in which thousands of millions change hands — is proof that business circles need a common currency. As nothing was being done to provide them with one, they invented their own. It is not healthy for that currency to be used, as it is at present, for the unlimited funding of American deficits. Europe must be able to provide Europeans with the currency they need.

The *Action Committee for the United States of Europe*, chaired by Jean Monnet, was saying as much as long ago as 1961. It observed that the Community's gold and currency reserves were almost equal to those of the United States and that the United States had debts, whereas the 'Six' had almost none.

Since then, the Community's reserves have increased significantly. By the end of 1967, they amounted to nearly 21 000 million dollars, as compared with the United States' 14 400 million. The United States had debts totalling 31 000 million, while the Community had virtually none. Admittedly, French losses this summer have changed those figures, but it must be remembered that America, too, sustained losses during the gold crisis last March.

The worldwide monetary chaos has become much worse. By around 1960, it was already being reflected by a gold crisis, followed by a dollar crisis, problems for sterling, and then capital movements prompted by the revaluation of the mark and the guilder and the devaluation of the Canadian dollar.

Since then, things have gone much better, with the devaluation of the pound and 14 other currencies, the gold crisis of last March, the ending of the pool and the two-tier market.

There has been no shortage of efforts to paper over the cracks: Rosa vouchers, Swap agreements, agreements on special drawing rights, a 3 000 million dollar loan to the United Kingdom in November 1964 followed by aid to the same country in the wake of the devaluation of the pound, and, finally, the recent Basle agreement on the consolidation of sterling balances.

It is possible that we may be granted some respite, because the problems faced by France have relieved the pressure on the dollar, while substantial American borrowing on the eurodollar market and extensive buying of American securities by Europeans will reduce the United States' deficit this year. However, an atmosphere of uncertainty, propitious to action, still prevails.

The Werner Plan and the European Monetary Cooperation Fund

The Luxembourg Prime Minister and Finance Minister, Mr Pierre Werner, is one of the most active campaigners for preparations for a European currency.

His country is a financial crossroads and provides a close-up view of international capital movements. He

knows what requirements have to be satisfied if capital is to be attracted and retained.

A statement that he made last January, in Germany, at the request of one of the founding fathers of European integration, Mr Franz Etzel, a former Vice-President of the ECSC, included proposals for a European unit of account. Mr Werner discussed it with his fellow Finance Ministers in Rotterdam in early September.

Mr Werner felt strongly that the Community was missing a unique opportunity: a chance to derive full benefit from its economic dynamism by creating a monetary and financial system that would give it a leading position in the world.

Such a move is all the more necessary, in the view of the Grand Duchy's Prime Minister, in that businessmen need a currency that inspires them with confidence; frequently, monetary manipulations are the vehicle by which, in times of crisis, not only the nation is asked to make sacrifices but its partners as well.

It is a necessary step because, following the abolition of customs duties, the opening of the common agricultural market and the fixed nature of food prices *in Community currency*, the fixed nature of exchange rates and the convertibility of the Member States' currencies are essential. Any significant change in exchange rates would cause such far-reaching upheavals, and the guaranteed prices for farm products — and, hence, farmers' incomes — would be so abruptly changed (in national currency) that the Common Market itself might be jeopardised. The European Commission warned the Member States about this danger as long ago as 1962. The problems experienced by France and the rumours of revaluation of the mark have now made the danger a very topical one.

Mr Werner has not set himself an excessively ambitious target. His plan seeks simply to consolidate the European unit of account, which he sees as the first step towards a currency. The plan is a five-point one:

1. Specifying those operations from which the Member States undertake to refrain unless they have previously consulted their partners through a special body set up for that purpose.

The principal operations in question will undoubtedly be devaluation and revaluation.

2. Finalising a single definition of the European unit of account and having it adopted.

The point here is that the wording used by the three treaties and the various regulations is not entirely consistent.

3. Specifying the reciprocal arrangements among the 'Six' for the maintenance of exchange-rate parities.

These, it seems, will be obligations similar to those of the International Monetary Fund and the European Monetary Agreement. Each Member State will be obliged, within its own market, to maintain the rates for the other currencies between a maximum and a minimum (0.75 % above and below par for the members of the European Monetary Agreement). To ensure this, each State will, as the case may be, have to sell its currency in exchange for others in order to raise the price of the latter or adopt the reverse procedure in order to lower the rates. It may be necessary, as between members of the Common Market, to resort to fixed, or virtually fixed, rates. That possibility would have to be reviewed.

4. Adopting a common position on behalf of the 'Six' at international monetary meetings.

At the time when Mr Werner was drafting his plan, this coordination of viewpoints among the 'Six' had made a great deal of progress and gave valuable service during the preparatory negotiations for the reform of the Monetary Fund.

Since then, radical differences have become apparent: during the gold crisis, four of the States remained loyal to the pool and then participated in the Washington agreements on the two-tier gold market before finally signing the agreement creating special drawing rights — a sort of credit currency intended gradually

to replace gold.

The agreement on the reform of the International Monetary Fund, currently undergoing ratification by the IMF member states, will give the 'Six' a right of veto in important decisions when they vote together. This is a bonus for European unity. It would be desirable for a common position to be drawn up and adopted in all important cases.

5. Finally, specifying by agreement between governments the obligations entered into by each Member State in respect of mutual assistance.

As we know, under Articles 107 and 108 of the Treaty of Rome, a State which is experiencing balance-of-payments problems may call upon its partners for assistance. The subject has recently been discussed in connection with France.

According to Mr Werner, a *European Monetary Cooperation Fund* could make a contribution here, assuming a dual function.

(a) Within the Community, it could function like the International Monetary Fund, coordinating its operations with the IMF. It would make loans available. Those loans, it appears, would be automatic if the sum involved were relatively small. Large loans, however, would be granted by Community decision, following a joint review of the adjustment measures proposed by the beneficiary state. The same mechanism functions very smoothly in the case of the IMF ... except in cases where the debtor countries exert too much influence on the decisions. This occurs with the United States and the United Kingdom, but there would be no reason to fear a similar situation in the case of the 'Six', where there is a better balance between the Member States.

(b) Externally, the *European Monetary Cooperation Fund* could grant two types of loan. One type, possibly similar to those which the central banks make available to one another in Basle, would serve to bridge temporary difficulties with the international payments system. The other would comprise straightforward commercial loans associated with the common commercial policy. Mr Werner may be thinking, for example, of the loans made to Eastern European countries. The term of these loans would be a major instrument of competition between members of the Common Market. And that is one of the main obstacles to the implementation of the common commercial policy in this area.

The ultimate purpose of Mr Werner's plan is the creation of a European reserve fund and a European currency, but he wants to move towards that objective by stages, along the lines of the development of a living organism, keeping pace with the real needs of the Community.

It will be interesting to see the outcome of the analysis of these ideas by the Monetary Committee.

Jean Monnet's European union of reserves

The study approved at the request of Mr Werner brings up to date the plan for a European union of reserves put forward by the *Action Committee for the United States of Europe*.

As we know, this Action Committee, founded by Jean Monnet after he stepped down from the presidency of the High Authority, was conceived as a European majorities club. Its members were the majority political parties and the main trade unions in each country. The Action Committee played an essential part in the ratification of the European treaties.

The coming to power of the Gaullists and the gradual loss of influence by French Members of Parliament over major political decisions has reduced the Committee's scope for action. For all that, it remains one of the most effective instruments for analysing and coordinating European policies.

As long ago as 20 November 1959, the Action Committee called for the creation of a European Reserve

Fund, 'centralising, at least in part, the monetary reserves of the six States and capable, should the need arise, of setting in motion the mutual assistance mechanisms envisaged by the Treaty, thus guaranteeing our national currencies.' That proposal had produced no reaction.

A memorandum dated 10 July 1961, drafted at a time of monetary uncertainty, supplemented that proposal. It has since been the subject of constant statistical updates. It has lost nothing of its topicality and will certainly be one of the texts used as a basis by the members of the Monetary Committee (or by the study that they have been asked to draw up).

The European union of reserves would be associated with the Community. The proportion of each member's reserves to be centralised would vary in accordance with the reserves themselves. Consequently, when gold or foreign currencies passed from one State to another, the total value of the Fund would remain constant, one State's gains offsetting another's losses.

It must not be forgotten that the European Payments Union (EPU) of the 1950s was one of the essential instruments in the development of trade between its members. Similarly, it appears that the increased volume of trade between the States of the Community is to be facilitated by a monetary instrument.

A young Belgian expert, Mr Robert Triffin, played an essential part in the evolution of the EPU. Having become an American citizen, and an unparalleled authority on monetary affairs, that same Robert Triffin appears to have influenced the preparatory studies for the proposed European union of reserves.

Whereas each country's share in the International Monetary Fund is independent of the status of its gold and currency reserves, that of the members of the European Union of reserves would vary continuously. This would enable it to provide a faithful reflection of the solvency of Europe as a whole. In turn, that would make the state of each country's reserves a subject of common interest, which would create a strong link between monetary policies.

In addition, it would be necessary to lay down common rules governing the granting of loans to a particular Member State or a particular foreign country. These standards, drafted and applied jointly, would provide the opportunity to select a credit policy. They would give tangible form to the rule laid down in the Treaty requiring each Member State to consider its monetary policy as a matter of common interest.

Above all, the union would necessarily make for better coordination of the Member States' monetary policies on the issues of budgets and loans.

The point is that a large budget deficit or a loan generously granted on very reasonable terms normally results in balance-of-payments deficits. A strict budget or a tightly controlled and relatively expensive loan brings in foreign currency. If they are pooled, therefore, the way in which each State manages its budget and its loans becomes a matter of European interest.

But, in that case, will not certain unpopular budget adjustments be imposed, not by a nation's elected representatives but by the governments of other countries, in response to a proposal from the European Commission? And if those decisions upset farmers and road-blocks are set up, who will take the responsibility for sending in the police? Not the European Commission.

We can thus see the kind of objections that could be raised against the idea of improved coordination of budgetary policies. It would not really affect the budgets in detail or the distribution of expenditure. However, by imposing certain overall balances, it would measure the possibilities for conducting a deficit-based policy of expansion and would, in some cases, prompt increases in taxation and restrictions on borrowing and thus result in businesses closing down.

New opportunities for employment and prosperity

These are serious decisions that will have to be taken jointly in order to create a European currency. But the

stakes are worthwhile: new opportunities in trade and savings, meaning prosperity and lasting expansion.

Those who, at the time when the Treaty of Rome was signed, believed that the abolition of customs barriers would bring nothing more than tougher competition and the risk of unemployment were wrong. What these new disciplines have actually brought us, with the proliferation of trade, is a continuous process of growth and an improvement in living standards beyond anything we could have dared to hope for.

In the same way, we shall be generously compensated for the disciplines that will be imposed as a result of any moves towards a European currency by new opportunities for employment and prosperity and for healthy expansion.

The idea of a European currency does not prejudice any solutions that may be adopted on the global scale. It does not settle the Rueff–Triffin dispute: should we increase the importance of the role played by gold or, conversely, gradually replace it with a jointly created credit mechanism? In either case, the Community will need its currency.

Whatever happens, that currency will require a pooling of reserves, just as all the reserves of the French provinces are pooled in the Banque de France.

Whatever happens, it will require the establishment of common rules: discount and credit terms, for example, are the same throughout a monetary territory.

Whatever happens, it will require a common discipline, a common budgetary and financial policy of which the currency is no more than the reflection.

Whatever happens, it will furnish Europeans with an instrument that will enable them to tighten the links that bind them, to develop their internal and external trade and to influence the major international financial decisions that are becoming a matter of ever-increasing urgency.

There are opportunities here that must not be missed.

Jean Lecerf