

'Currency and Europe' from Courrier Européen (January-February 1976)

Caption: Following the collapse of the Bretton Woods system, an article from Courrier Européen focuses on the pressing need to establish a European currency system that would lead ultimately to the introduction of a single currency and the setting-up of a European body responsible for coordinating monetary policies.

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Currency and Europe

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A currency which is a genuine currency is indispensable, not only to promote balanced growth but also to maintain the cohesion of an organic human society such as the European Community. Indeed, in the absence of a common language which overcomes ethnic diversity, a currency offers the strongest link to safeguard that cohesion.

Is not a genuine currency one which has the essential attributes of relative stability, security and freedom of circulation without restrictions or barriers across frontiers and which is able to withstand the onslaught of inflation? Since the dismantling of the Bretton Woods system and the tribulations of the dollar, most currencies have found it difficult to meet these criteria. If this state of affairs continues for too long, it may jeopardise the efforts which have, so painstakingly and with so many disappointments, been put into the structuring of Europe, and, in the more or less distant future, it may even threaten its survival.

System in ruins

The economic conference, designed, on the initiative of France, to organise 'international cooperation', the purpose and procedure of which were drawn up not without difficulty by the preparatory meeting in the Avenue Kléber, clearly must reserve an important place for monetary questions. Will it succeed in achieving some progress along the road towards the restoration of the system which lies in ruins? Let us hope so, but let us not harbour any illusions as to the scale of the difficulties to be removed and the obstacles to be overcome. Let us hope, at the very least, that it will be conducive to the establishment of a system commensurate with the European Community.

The institution of such a system should help to safeguard the independence of the Community vis-à-vis the dollar. In the Bretton Woods system, the American currency was, so to speak, the pilot currency. Once it reverted to being primarily a national currency, it was no longer in a position to take on the full role that it had previously played in world affairs. Worse still, the other currencies were exposed to the risk of being affected by its trials and tribulations.

The United States, because that course seems to coincide with its current interest, advocates the general introduction of 'flexible parities' so that, instead of achieving the stability which should be their essential attribute, currencies are doomed to float. France, on the other hand, advocates fixed exchange rates, but with parities readily adjustable if changing economic circumstances so require.

A specific European system based on this principle would make it possible to achieve a certain autonomy within a universe of mobile exchange rates. It could be compared, if it became a reality, to a constellation whose constituent stars maintain constant distances from each other but move in unison in the firmament in relation to other stellar bodies, the dollar in particular.

A scattered flock

At present, the currencies of the Community countries move about haphazardly. They are like animals in a flock scattered through the countryside because the fences which kept them in their pastures have been torn down by the collapse of the shattered edifice of Bretton Woods. These fences represent the complex system of rules governing the creation and circulation of currencies: observance of a common discipline, harmonisation of monetary policies and defence of the equilibrium of the global balance of payments.

Repairing the fences and returning the flock to the fold mean establishing a new monetary order, but this undertaking runs the risk of being frustrated by the individual interests of the various countries: the laborious and often fruitless negotiations in the economic field, particularly on agricultural matters, demonstrate this. Efforts in pursuit of this undertaking will come up against the principle of monetary sovereignty, a

throwback to the ancient royal prerogative of minting coins. Let us pin our hopes on the wisdom which must, ultimately, be inspired by the solidarity that unites the partners in the Community who, to date, it would seem, have not been properly aware of the dangers which threaten it.

A mental picture

The practice of solidarity will lead to the ultimate goal, the establishment of a European currency. In the present situation, and given the current state of thinking, such a prospect may be no more than a mental picture. Moreover, the existing disparities between the national systems will have to be removed and the diversity of economic structures and methods reduced. In a more general way, certain essential preconditions must be met, in the first instance — with budgetary and fiscal policies unified as much as possible — harmonisation of monetary policies, and continuous coordination of measures affecting the operation of monetary markets, regulation of capital movements and, in a word, establishment of genuine monetary cooperation between the Member States of the Community.

Such coordination implies the creation of an organisation, a kind of International Monetary Fund for Europe or a super central bank as an umbrella body for the national central banks, such as the Bank for International Settlements (BIS) in Basle was intended when it was first set up. Even so, it would be foolish to imagine that the countries concerned would happily allow the European currency to replace the various national currencies. Even if a general consensus is ultimately achieved, it will hardly be possible to avoid allowing a certain dualism for a more or less lengthy period, in which the traditional currencies and the new one exist alongside one another.

Or an accounting currency ... Why not? The use of such a medium was common practice in the past with the florin, the thaler and many others. In France, the *livre parisis* then the *livre tournois* functioned as accounting currencies for centuries, while transactions were effected in *deniers*, in *agnels*, in *écus* then in *henris* and, finally, in *louis d'or*, a name which is still used for gold coins, also known as *napoleons*.

The only difficulty would be to decide on a satisfactory definition for this accounting currency, short of linking it to gold despite the fluctuations to which the market in the latter is subject. But what other standard would provide a firmer anchorage? Indeed, I categorically refuse to believe in the final demonetisation of the yellow metal, despite the opportunism which prompts the Americans, for now it seems, to champion it. It would not be so easy to discard gold, which was a means of exchange and even an object of veneration for thousands of years, without bringing into play singularly powerful psychological factors which would be debased by the assuredly hazardous quest for a new standard. Besides, it is not really possible to eliminate something unless it can be replaced by a better successor. But by what would gold be replaced? Certainly not by that ingenious expedient, special drawing rights, defined as a 'basket' of currencies, none of which carries an undisputed guarantee of soundness.

A matter of urgency

This is a question which may be approached only as part of the search for one of the most effective means of ensuring the survival of Europe. It is in this context that the importance of the monetary problems to the construction of political Europe is to be measured. Accordingly, they are problems which are, undeniably, a matter of urgency.

There can be no doubt that monetary union is not an imminent prospect for us now, but any progress, however modest, has its price. Even so, our future is crucially dependent on the consensus of the states which make up the common market. The fate of Europe, ultimately, depends on the awareness and resolve of those who govern each of them.