

Franz Blücher, European Payments Union, a transitional solution

Caption: On 8 August 1952, Franz Blücher, Federal Minister for Marshall Plan Affairs, emphasises the difficulties experienced by the European Payments Union (EPU) in ensuring the smooth performance of payment operations at Community level.

Source: Bulletin des Presse- und Informationsamtes der Bundesregierung. Hrsg. Presse- und Informationsamt der Bundesregierung. 08.08.1952, Nr. 108. Bonn: Deutscher Verlag. "Europäische Zahlungsunion eine Übergangslösung", auteur:Blücher, Franz , p. 1035.

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European Payments Union, a transitional solution

Need for currency convertibility — internal financial stability and balance of payments equalisation

By Franz Blücher, Federal German Vice-Chancellor and Minister for Marshall Plan Affairs

The European Coal and Steel Community will soon become operational. The European Defence Community is also likely to start work soon. Although the negotiations on the creation of a European agricultural union are still at an early, preparatory stage, here too there are a number of signs that it is likely to come into being in the not too distant future. All these European communities can only function perfectly in the economic field, however, if the conditions for the smooth settlement of transactions between the contracting parties are met.

The European Payments Union can indeed serve this purpose well, yet it remains a transitional and partial solution. Although unfortunately some contracting parties could only bring themselves to decide to prolong it by one year from 1 July 1952, many nevertheless intend to work tirelessly during that one year of prolongation to create the conditions for making European currencies convertible.

Taking the view that certain technical improvements will not necessarily suffice to ensure that the Payments Union can function properly, the Council of the Organisation for European Economic Cooperation (OEEC) in Paris recently laid strong emphasis on the fact that safeguarding member countries' internal financial stability is an important precondition for the necessary balance of payments equilibrium. To that end, it has set up an international group of outstanding scientific and economic experts who have now submitted a report on this cardinal question. It is to be welcomed that in their deliberations the experts started from the assumption of a constantly growing economy and rising production, and that they laid great emphasis on the strong influence of the expected US economic trend on European economies — especially on member countries' balance of payments and financial policy.

Over the past few days, a small group of seven European ministers, together with representatives of America and some of these experts, has discussed the findings of that report. I joined these experts as representative of the Federal Republic, in full agreement with the Minister for Economic Affairs and the *Bank deutscher Länder*. The experts stressed in particular how important a healthy monetary and credit policy is for internal financial stability and balance of payments equalisation. Monetary policy and financial policy should indeed be coordinated in such a way as to ensure that they supplement each other's stabilising effects. Any undue emphasis on individual, unilateral measures must definitely be avoided. What is also needed, however, is very close coordination of the objectives that the member countries and associated countries want to set for their economic and financial policy. I therefore regard it as an important task of the OEEC Council to contribute to achieving this by all the means at its disposal.

I agree with the experts that one important condition for restoring convertibility is to stock up the currency reserve in European countries. In the OEEC, every means of building up European currency reserves will have to be considered, whether in relation to European or American trade policy issues, international capital movements or even closer international cooperation among central banks. Prompted by some of the comments set out in the reports at hand, I drew particular attention during these Paris talks to the need to stabilise raw materials markets and to the matter of subsidies, because in my view both questions are closely connected with the return to convertibility.

Experience since Korea has shown that price movements in raw materials markets can have undesirable, disruptive effects on the external economic relations of the individual countries. This is a worldwide problem, one which extends beyond the geographical competence of the OEEC. Even so, we should consider within the OEEC whether we should not endeavour, jointly with other organisations, to improve the stability of the raw materials markets in order to reduce any undesirable repercussions on balances of payments. Subsidies are a burden on national budgets and, as a result, they often impair financial stability, distort the price and cost structure and, consequently, also affect balances of payments. Regardless of whether the subsidies are designed to influence the cost of living or freight rates, or whether they relate to

imports or exports, a policy of subsidies can often do substantial damage. The subsidies system is often applied in international competition and results in individual states trying to outdo one another in the granting of subsidies, thereby placing an unnecessary burden on their budget and balance of payments. I therefore believe that international cooperation to remove unnecessary subsidies is desirable, not least in the interest of stabilising balances of payments and facilitating the convertibility of currencies.

In their report, the experts pointed out that currency exchange rate changes might be inevitable in individual cases. Here, we should not forget that a change in the currency exchange rate is always bound to produce as many disagreeable results at home as in external economic relations, that it must be considered only as a measure of last resort, in a sense as the keystone of a comprehensive stabilisation policy. In this respect, it seems worth pointing out that the endeavours of each government to bring about not just stability but an internationally fair price and cost level by applying an appropriate economic and financial policy deserve priority over any consideration of possible rate adjustment and should be given international support.

It was pleasing to find that both the international experts and the ministers who took part in these discussions in Paris broadly agreed on the required principles for a healthy monetary and financial policy and the need for close international cooperation in this field. In my view, there is hardly any other task in the field of international economic cooperation that is as urgent and crucial for the future as the common endeavour to create all the necessary conditions for restoring genuine convertibility between European currencies. This will have a determining influence on relations with the dollar area and the entire sterling system. This reform is the only way to achieve genuine economic integration.