‘European monetary policy' from Nieuw Europa (June 1969)

Caption: In June 1969, Pierre Werner, Prime Minister and Finance Minister of Luxembourg, announces his ideas on the European Communities’ monetary policy in Nieuw Europa, the monthly bulletin of the Dutch Section of the European Movement.

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European monetary policy

(1) A slow and cautious approach

Although it seemed an academic and premature subject for many a long year after the EEC was founded, having a concerted, convergent monetary policy at European level has suddenly turned out to be a desirable, or even unavoidable, goal since late 1967, in other words since sterling was devalued. As so often happens, the system needed to be put to the test and alarm bells needed to ring before it was realised that the strategy was uncertain and that people in the Community countries were not mentally prepared for such international monetary upheavals. Admittedly, the upsurge of interest in monetary solidarity between the Six tailed off as the global situation appeared to settle down, but there was a new outburst with the crisis with the French franc in November 1968, particularly as the controversy about whether to revalue the mark or devalue the franc exposed certain critical cooperation mechanisms within the economic community.

Once the storm had passed, it seemed likely that people would once again lose interest in or forget some of the lessons learned from the successive crises. We should be grateful to the Brussels Commission and the Finance Ministers of the Six for daring to ask new questions about monetary cooperation between the Six and for openly tackling certain received ideas head-on.

It all began in February 1968 in Rome, at a conference of Finance Ministers, with a confidential communication from the Commission in the form of a memorandum on the Community's activities in the monetary field. This document was handled extremely discreetly because of the nature of the problems to be discussed.

It was not until the Finance Ministers' conference in Rotterdam on 9 and 10 December 1968 that those responsible for monetary policy in the six Member States gave their reactions. Once again, the matter was handled with the necessary circumspection. I had the honour of being invited by my colleagues to open the debate with a statement of my long-held beliefs about the need to deepen monetary cooperation and to institutionalise the links established.

My arguments in favour of such action are based first of all on the requirements of economic union, to which the Community, according to its very constitution, aspires.

I have never been convinced that an economic union, on whatever scale, could be built without formal undertakings on parities and without a monetary policy to support internal and external trade policy.

There is also, in my view, a problem of legal and economic certainty for all partners, given the risk that monetary policy instruments used without regard for the common good might lead to distortions and discrimination which are inconsistent with a market freed from other barriers.

Following their discussions the Finance Ministers instructed the Monetary Committee to continue its work, in cooperation with the Committee of Governors of the Central Banks, on progress to be made in the field of monetary relations. This extremely cautious wording indicated their concern not to prejudge the substantive options on this issue. The Committee issued an interim report on 15 January this year.

(2) Two trends

There are two contrasting ideas and approaches to monetary integration, both rooted in the same basic conception, that monetary convergence makes sense and is likely to be successful only as a function of progress on economic and budgetary integration. After all, currency is the vehicle of trade, and the value of a monetary policy is determined by the general behaviour of the economy. Where there is a difference of opinion — and approach — is when it comes to establishing cause and effect and the chronological order in which action should be taken in these two naturally linked fields.

Some people think that the monetary community can only fall as a ripe fruit from the tree of economic integration: our priority concerns should therefore be action on economic, structural and budgetary policy.

Other people claim, on the other hand, that if the Community is to have a successful commercial and economic policy a powerful lever is needed and a discipline must be agreed in advance, one based either on formal consultations on the principles of monetary policy or even on monetary unification.

In my view, as we have found in other areas, and given that economic policies involving both national and Community elements are so complex, we need to encourage the economic and financial fields to interact with each other. In other words, we need to tackle the problem from both ends and develop parallel initiatives.

I am pleased to say that, in its memorandum of 12 February this year on the coordination of economic policies and monetary cooperation, the Commission adopts this fundamentally dual approach to the issue.

(3) The European Commission’s proposals

The Commission has now put forward practical proposals, aware that inaction would be likely to cause serious imbalances given the progress made on integration in other areas.

The memorandum, published in February 1969, first envisages greater cooperation on short- and medium-term policies. With regard to current policy, the Commission calls for the Member States to make it a rule to hold prior consultations on certain decisions and measures affecting the other countries’ economies, particularly on trends in prices, incomes and employment, overall budgetary policy and changes in taxation, the effects of which may be felt outside a Member State’s own borders.

The Commission then proposes that a decision should be taken before the end of the transitional period, in other words by 1 January 1970 in practical terms, to establish a monetary cooperation mechanism within the EEC. This would initially provide short-term monetary support. Each country would undertake to make available to the other Member States an amount of currency reserves up to certain ceilings. A country in difficulty would exercise the drawing right conferred on each country simply by calling up funds. As well as providing this mutual assistance, the Six would jointly consider how much funding was needed for the ‘drawing’ country to recover. If agreement could not be reached on this point, the loan would be limited to three months. If there was agreement, it might be renewed or replaced by medium-term financial assistance.

(4) Technical and political aspects of the proposal

We can assess the Commission’s initiative from two different perspectives. We should begin by analysing its technical merits and immediate economic effectiveness.

The first question is whether the mechanism planned is consistent with the idea of mutual assistance provided for in Article 108 of the Treaty of Rome.

There is a difference in procedure and perspective rather than in the substance and objective. Whereas the authors of the Treaty appear to have regarded mutual assistance as a treatment to be applied after the event should any accidents occur, in accordance with a procedure to be adopted on a case-by-case basis, the current proposal introduces an element of anticipation and planning, which effectively creates a reciprocal system of drawing rights. It thus improves the general structure of the Treaty provisions on the remedies to be applied to disequilibrium in balances of payments by, at the very least, delaying the point when restrictions or retaliatory measures might be applied which are contrary to the smooth operation of the single market.

Of course, the technical arrangements for the proposed plan still have to be discussed and defined in greater detail, but questions and concerns remain about how effective the system will be.

One objection that arises straight away concerns the automatic nature of the first drawing. By failing to impose any prior conditions or consideration, might not the system be used too readily and its resources quickly exhausted?

Does not the unconditional provision of initial financial assistance for up to three months predetermine subsequent decisions on a medium-term loan (which is conditional)?

Is there a way to water down the automatic nature of the first call-up of funds by applying a system of carefully chosen indicators, which, if they developed in parallel, would provide grounds both for providing mutual assistance and for reversing it?

Could the monetary nature of the resources lent be reinforced and the debtors' discipline stiffened by providing for periodic clearings, with balances payable in gold, in dollars or by obtaining financial assistance on a more general level (from the IMF, for example)?

This article is not the place to be discussing such technical aspects of the new system. The Monetary Committee will give its verdict on the subject.

What we must remember is that the new system definitively recognises the Community Member States' solidarity in monetary matters and that it gives them an intervention mechanism to be used in support of that solidarity.

This is why — and this is the second feature of this plan — the Commission's memorandum adopts a particular political stance at a time when goodwill in Europe is on the wane or feeling discouraged.

Leaving aside any other aspect, the signal merit of the Commission proposal is that it has been formulated at all — in other words, that it exists. It is therefore to be hoped that the Council of Ministers will reach a prompt and carefully balanced decision to introduce, as a first expression of monetary solidarity, a monetary instrument that will operate within the Community's own framework.

(5) A step towards monetary union

How does this new system fit into the wider landscape of monetary union? What are the prospects for monetary union?

The proposed drawings system does not fundamentally change relations between the national monetary institutions or their own powers.

We also have to be honest and admit that, at the current stage of political development, it is good for the Member States to hold on to their own monetary responsibilities, particularly when it comes to guaranteeing equilibrium in their balance of payments, with all the economic sanctions that this requirement involves.

The new assistance is likely to make Europe's currencies more stable, but it is not a definitive solution to the problem of fixed parities, which could become serious if Governments follow recent thinking about variable exchange rates in international financial relations. It should be pointed out here that Article 107 of the Treaty provides that 'Each Member State shall treat its policy with regard to rates of exchange as a matter of common concern'. The procedure for changing parities between partners is still the most difficult problem and will have to be considered in much greater detail.

One question that is currently being studied is whether it is appropriate to abolish the margins of fluctuation in exchange rates between the currencies of the Six. This presents some fairly complex technical problems which will be resolved only if greater account is taken of the solidarity that has already been established between the economies of the six countries. In other words, a network of reciprocal currency loans based on a code of conduct and greater cooperation on economic policy, as well as on a certain degree of harmonisation in the instruments and conditions for creating money, should be the next steps on the road to establishing a common market which has all the features of an internal market.

However, we must not underestimate how difficult this undertaking will be. The Member States will not give up certain aspects of their monetary sovereignty lightly. But would that not itself be a good reason to ‘objectivise’ monetary policies and rules in order to make them an instrument of economic arbitration between the partners? Why would anyone fight shy of a monetary code to which everyone has agreed?

(6) Other approaches

There are other approaches that could promote a Community policy.

It is quite possible that the main impetus will come from the need for a European capital market and from the current conditions in which it operates.

In this respect it could be extremely useful to have an accounting currency, which would be defined less by legislation and regulations than by its suitability to meet the requirements of the market.

I have often recommended the use of a European accounting currency. The Brussels Commission is continuing to study ways in which to resolve the chaos of the units of account provided for in the Treaties and other regulations. I still believe that, without forcing the issue, the very act of favouring this accounting currency, which would not replace the national currencies but might be used voluntarily in contracts, would represent a major political and financial act.

The European capital market, which has already demonstrated its existence by issuing euro-dollars, will also be consolidated and Europeanised in the capital buyers’ eyes if we endow it with an accounting currency based on the national currencies of the Six, with or without a reference to gold. The creation of travellers’ cheques made out in European units of account would have a special resonance in the public’s imagination.

(7) Europe and the world

If the Six were to take the action recommended, would this not lead to the compartmentalisation of the international money markets, contrary to the universality promoted by free trade between nations? The global agreements concluded and the operation of financial institutions such as the International Monetary Fund have indeed been one of the main factors in the expansion of world trade and improvements in everyone’s welfare over the last few decades.

Furthermore, on a global level, coordination between the Six could be an influential factor in promoting efficiency. In recent times the six countries of the Community have succeeded in securing a veto to block major monetary initiatives by the International Monetary Fund. This achievement will be compromised if we cannot ensure that the Six maintain cohesion in all circumstances through an EEC monetary cooperation fund.

This is why, as the Commission also stresses, any system of European cooperation must still be connected to wider organisations and structures. It must also be organised in such a way that it does not make it impossible for new members to join the Common Market, provided that they accept the same discipline. In this respect, as is consistent with the Community’s general outlook, any action must be open to the world and must add to its financial order and stability.