

EUROPEAN MONETARY INTEGRATION

EUROPEAN MONETARY INTEGRATION

PETER COFFEY
and
JOHN R. PRESLEY

Palgrave Macmillan

© Peter Coffey and John R. Presley 1971
Softcover reprint of the hardcover 1st edition 1971
All rights reserved. No part of this publication
may be reproduced or transmitted, in any form
or by any means, without permission.

First published 1971 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Associated companies in New York Toronto
Dublin Melbourne Johannesburg and Madras

Library of Congress catalog card no. 70-178243

SBN 333 12749 3

ISBN 978-1-349-01260-2 ISBN 978-1-349-01258-9 (eBook)
DOI 10.1007/978-1-349-01258-9

Pour Georges et pour tous les autres
jeunes Européens de l'avenir

To Barbara and Joanne

Contents

<i>Introduction</i>		x <i>i</i>
PART ONE		
POST-1944 MONETARY CO-OPERATION		
1	The Beginning of European Monetary Co-operation	3
2	The European Payments Union	13
3	Trade Liberalisation and Monetary Integration	24
PART TWO		
MONETARY CO-OPERATION WITHIN THE EUROPEAN ECONOMIC COMMUNITY		
4	The Earlier Plans, 1969-70	35
5	The Second Werner Report and the Subsequent Agreements	49
PART THREE		
THE THEORETICAL IMPLICATIONS OF A MONETARY UNION		
6	Balance of Payments Adjustment within a Common Market	61
7	Monetary Integration and Britain's Entry	79
PART FOUR		
A EUROPEAN CAPITAL MARKET		
8	The Evolution of European Capital Markets, 1958-70	93
PART FIVE		
AN ENLARGED COMMUNITY: STEPS TOWARDS A FINAL MONETARY INTEGRATION		
9	Proposals for a Monetary Union	103
	Postscript: The 'May Events' of 1971	110
<i>Appendixes</i>		
	Help for Sterling: The Basle Agreements	115
	Table 1: U.K. Balance of Payments Summary, 1952-8	121
	Table 2: U.K. Balance of Payments Summary, 1959-65	122

Table 3: Reserve Position of the United Kingdom	123
Table 4: U.K. Balance of Payments, 1960-8	124
Table 5: Net Drawings from the I.M.F.	125
Table 6: Liquidity Positions	126
Table 7: Short-term Aid as a Proportion of Exports, Imports, the Volume of Trade and G.N.P., 1968	126
Table 8: The Rates of Growth in the E.E.C. and the U.K.	127

<i>Index</i>	129
--------------	-----

‘Il ne faut pas vendre la peau de l’ours avant de l’avoir pris,’ interrompit La Crique, qui, bien que jeune, avait déjà ses lettres. ‘Si nous voulons être sûrs d’avoir des boutons, et nous pouvons en avoir besoin d’un jour à l’autre, le meilleur est d’en acheter.’

‘T’as des ronds?’ ironisa Boulot.

‘J’en ai sept dans une tirelire en forme de “grenouille”, mais il n’y a pas à compter dessus, la grenouille ne les dégoillera pas de sitôt; ma mère sait “combien qu’il y en a”, elle garde le fourbi dans le buffet. Elle dit qu’elle veut m’acheter un chapeau à Pâques... ou à la Trinité, et si j’en faisais couler un je recevrais une belle dingüée.’

‘C’est toujours comme ça, bon Dieu!’ ragea Tintin. ‘Quand on nous donne des sous, c’est jamais pour nous! faut absolument que les vieux posent le grappin dessus. Ils disent qu’ils font de grands sacrifices pour nous élever, qu’ils en ont bien besoin pour nous acheter des chemises, des habits, des sabots, j’sais ti quoi! moi; mais je m’en fous de leurs nippes, je voudrais qu’on me les donne, mes ronds pour que je puisse acheter quelque chose d’utile, ce que je voudrais: du chocolat, des billes, du lastique pour une fronde, voilà!’

LOUIS PERGAUD, *La Guerre des boutons* (1912)

‘Nous ne pouvons qu’errer, indécis et procéder par tâtonnements.’

COLETTE, *Aventures quotidiennes*

Introduction

The subject of European monetary integration is a question of a burning actuality. Alone, the events of November 1969–February 1971 would have made this study worth while. But these events have taken place against a background of increasing suspicion as regards the dollar, an apparent renaissance of the pound sterling, continued speculation in favour of the Deutsche Mark and a flood of dollars into Western Europe.

The authors aim to expose the historical background and the theoretical implications of the accepted economic and monetary union. They also put forward their own proposals for a more effective and rapid implementation of the union. In this respect, they are concerned with the most careful co-ordination of economic and monetary policies and the provision of adequate credits for countries facing balance of payments difficulties during the most crucial transitional phase up to 1975. During this period balance of payments considerations will be paramount, and during this period radical changes will (one hopes) be introduced in the E.E.C. agricultural system.

The real importance of this period lies in the decision of the Council of Ministers in June 1970 not to enlarge the bands around the existing parities of the E.E.C. member currencies. Subsequently it was also agreed to narrow the band around these parities. These decisions amount to the acceptance of a *de facto* system of fixed parities or a *de facto* gold standard. Although, at least during this period, in extreme cases changes in the parities are not excluded, they are not, in view of their negative implications for a monetary union, to be lightly undertaken. This implies that during this period, when balance of payments considerations are important, deficit countries would be expected to deflate in order to bring their balance of payments back into equilibrium. But it would not necessarily imply the imposition of an inflationary policy on a surplus country (although admittedly a heavy outflow of 'undervalued' exports could lead to the importing of inflation into such a country). Such a situation would be negative to the

restructuring of certain national economies which might be necessary.

Thus the authors propose mainly a high degree of economic co-ordination for the initial 'extended' phase of monetary integration – especially careful control over the governmental and capital accounts of the national balance of payments, the provision of larger amounts of credit for countries facing balance of payments difficulties, the control over E.E.C. borrowing from third parties – especially from the Euro-dollar market – the immediate creation of a European currency as a unit of reference¹ and the provision of adequate regional aid for the subsequent stages of economic and monetary union.

The authors believe that with the setting-up of adequate controls over speculation, capital and monetary movements and borrowing from third parties, the provision of adequate aid and sufficient centralised economic co-ordination, there is no reason why equal and fixed exchange rates – that is to say, a European currency – cannot be introduced shortly after the end of the first phase of integration.

In preparing this book, the authors have been infused by the excitement and portent of the decisions which have been made during the past fifteen months and by the possibility that an enlarged Community may affirm its personality much more strongly in the international monetary sphere. They have also received much encouragement in this enterprise from many sources. John Presley has, in particular, received much support from his wife Barbara. Both authors have been encouraged by their Finalist students at Loughborough in Economics, led by Tim Price, by the Boys at the Mill, by their friend Klaus Habedank, and by their friends in Amsterdam, Brussels and Paris. They are also grateful to Mrs B. Brown and her associates for typing the draft of this book. Last, but not least, they wish to thank the House of Macmillan, in the person of Mr T. M. Farmiloe, for making this work possible.

¹ Such a unit of account might become a European reserve currency.

*Loughborough,
April 1971*

P. C.
J. R. P.