

PART THREE

The Theoretical Implications of a Monetary Union

'Payez mon ami, vous qui jouissez en paix d'un revenu clair et net de quarante écus.'

(Voltaire, *L'Homme aux quarante écus*)

The objective of the various plans outlined is to provide for the transition of the European Economic Community from its present customs union form towards an economic union which exhibits a supranational control of monetary and fiscal policies and a common currency. The most important repercussions of this transition, whichever plan is adopted, will be upon internal and external equilibrium¹ and upon the reserve problem of the adjustment mechanism. It is the purpose of this section of the book to analyse the impact upon the balance of payments adjustment process, and to analyse it particularly from the point of view of Britain's entry into the Common Market.

It is impossible to consider external equilibrium in isolation from other policy aims. Although the balance of payments must enjoy an elevated position in the Common Market because of the increased interdependence of the member countries, it is not the only concern of national governments. Equally important is the achievement of full employment, price stability and economic growth. Article 104 of the Treaty of Rome in fact states that member countries should seek to achieve an overall

¹ External equilibrium refers to the achievement of the balance of payments objective; internal equilibrium usually means a position of full employment.

balance of payments equilibrium, confidence in their currency, a high level of employment and price stability. If Britain joins the Common Market it is imperative that the potential gains in welfare brought about by free trade are not eroded by increased unemployment. It is therefore important to determine whether the proposed stages of transition will allow both internal and external equilibrium to be attained, or whether alternative transitional plans need to be developed. Having examined the theoretical framework for balance of payments adjustment, we will be in a position to assess the applicability of the framework to the economic environment of the Common Market, and the consequences of the adjustment process upon Britain's entry.