PART FIVE

An Enlarged Community: Steps towards a Final Monetary Integration

Comme les bons esprits ne s'expriment aussi bien qu'en chiffres, l'Assemblée pour manifester les siens, lui vota une gratification de 24,000 livres.

(Orieux, *Talleyrand*, 1970)

THE INDIVIDUAL CASES OF THE MEMBERS OF AN ENLARGED COMMUNITY

The fundamental problem which the evolving economic and monetary union involves is that of the different stage of economic development of the individual member states of an enlarged Community. This problem is particularly delicate during the first 'extended' phase of the union (i.e. until 1975) when balance of payments considerations will be paramount. During the subsequent stages it is likely to transform itself into a regional problem *tout court*.

Basically, the members of the enlarged Community fall into one of the following categories:

(1) A country with a large and flourishing industrial sector and a small but not insignificant, relatively inefficient agricultural sector (e.g. West Germany).

(2) A country with a large and relatively flourishing industrial sector and an important agricultural sector in need of restructuring (e.g. France and Italy).

(3) A country with a large industrial sector which needs restructuring, and a small but highly efficient agricultural sector (e.g. Great Britain).
(4) A country with important and highly efficient agricultural and industrial sections (e.g. Denmark).
(5) A country with an important agricultural and a less important industrial sector – both in the process of being developed (e.g. Ireland).

In the enlarged Community, it would be the continued problem of the industrial pre-eminence of West Germany with the additional problem of the German balance of payments surpluses and monetary inflows into that country, vis-à-vis the probable balance of payments deficits and/or obligatory deflationary policies of Britain and France, which gives most cause for concern. As Samuel Brittan has pointed out (quoting from Graham Hallett) in his admirable exposé,[1] the kernel of this question lies in the difference in productivity between agriculture and industry. It will take time to restructure agriculture and, in the case of Britain, parts of her industry must also be restructured. Lastly, in the case of France, but much more so in the case of Britain, there exist the immediate problems of a certain imbalance in the population structure in the form of a very large young population, either below working age and/or a large number of school leavers who cannot find jobs.

The solution of all these problems leads us to be somewhat wary of the too rapid introduction of equal and fixed exchange rates, and to be convinced of the crucial necessity of the provision of adequate regional aid in time for the beginning of the second stage of economic and monetary union.

Similarly, until national balance of payments considerations cease to be of importance (i.e. until the introduction of a common currency), the question of reserve and credit facilities is of crucial importance.

THE QUESTION OF RESERVE AND CREDIT FACILITIES

The narrowing of the band around the national currencies of the enlarged or present Community and the move

[1] Brittan, p. 85.

towards equal and fixed parities could collapse on this question. Inadequate reserve and credit facilities could also sabotage in advance the co-ordination of the national economies.

Despite the fact that the reserves of the E.E.C. are currently higher than those of the United Kingdom,[1] this has not prevented speculation against E.E.C. currencies on occasions when the balance of payments have been both in deficit and in surplus! We have, in particular, witnessed speculation against the French franc in 1968 and in favour of the Deutsche Mark, and against the Italian lira in 1969 – when, in the case of the third currency, the current balance of payments was in surplus. Nor should we ignore the request by Italy to the United States made in 1970, for an extension of the $500 m. credits allowed her by the latter, to help fight speculation against the lira.

Should more than one nation in the existing Community face a balance of payments deficit and/or speculation against its currency, it is hard to believe that the existing short- and medium-term credits will prove adequate. Further, the Community would appear to have ignored the possibility of speculation against the currencies of the member states by third parties.

We would support an enlargement of and greater multilateral automaticity of the short- and medium-term credits made available to the existing Community, particularly during the initial extended phase of union. If and when new members should join the E.E.C., these credits would have to be increased still further.[2] Without such increases, deficit countries may have to deflate, during this crucial initial phase, to such a degree that they may not be in a position to restructure their economies. Similarly, countries whose currencies might be the object of revaluation speculation could well waste their energies fighting such money movements.[3] Any large degree of speculation

[1] See page 83 and Appendix Table 6.

[2] The authors would support the pooling of all the gold and foreign currency reserves of the E.E.C. member states.

[3] Here, we should note the West German experience in late 1969 when foreign issues had to be suspended on the Frankfurt Stock Exchange until March 1970.

would shake the confidence of the monetary union. This break in confidence would effectively sabotage economic co-ordination unless carefully avoided by some Community organ.