PRESS REPORTS

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PLAN FOR MONETARY UNION IN E.E.C. BY 1970

from
Our Own Correspondent

PARIS, Oct. 29--Common Market Governments should immediately agree to earmark a fixed proportion of their gold and foreign currency reserves for mutual aid to each other in case of difficulties, as a step towards a monetary union by 1970. This move would in effect be to a common currency.

This is one of many far-reaching new proposals made by the E.E.C. Commission in a memorandum submitted to the Council on "The Community's programme of action during the second stage" (1962-65 inclusive), which was presented to the Press here to-day by M. Robert Marjolin, vice-president of the Commission.

The establishment of the first Community five-year "programme"--a euphemism for French-style planning--for 1964-68 is another of the most important projects in the memorandum, which covers the whole range of economic union.

"Gradual Merger"

The Commission describes its proposals as "a gradual merger of national economic policies . . . Such integration is a suitable instrument for the implementation of the political union of Europe in a limited sphere, that of the economy."

It justifies their presentation now on the grounds that applicants for membership or association "may legitimately wish to know more precisely the significance of the economic union laid down by the Treaty."

It points out that the lack of a common monetary policy is a gap in the Rome Treaty which needs to be filled. British entry into E.E.C., it says, will profoundly change the monetary situation, but it believes that its proposals will retain all their importance.

By the end of the transition period, members' exchange rates will have to be fixed, with only small freedom to fluctuate within certain limits, if there is to be a monetary union. Referring to the "fragility" of the present international monetary system, the Commission says: "The appearance of a European reserve currency would greatly facilitate international monetary co-operation and the reform of the present system."

M. Marjolin said to-day that the guarantee of fixed exchange rates implied a single currency. He could continue to indulge the "fantasy" of having the image of the Head of State on the banknotes of each country, but this would no longer be important. He would envisage the printing of common banknotes.

The immediate execution of the following proposals is recommended:-

1--A continuing monetary review by a Council of Central Bank Governors, which would join in meetings of economic Ministers in the E.E.C. Council.

2--These bodies would have to be consulted whenever a member State proposed to take any important monetary decision, such as changing the exchange rate (during the transitional period), bank rate and other short-term interest rates, liquidity ratios, or policy on open market operations. This system should be in place by mid-1963.

3--Members could join in addressing monetary recommendations to another member whenever they felt the need to do so.

4--Recourse to the I.M.F. by a member would have to be preceded by Community consultations. Members should work out a common position with regard to the present world monetary system, and the reforms to be carried out, by the end of 1963.

5--Mutual aid would be given to a member in difficulties, if it fulfilled certain conditions. Members would earmark a fixed proportion of their reserves for this purpose, as was originally suggested by M. Jean Monnet, who launched his idea of a European Reserves Union nearly two years ago.

Centralisation

None of these proposals, says the Commission, would infringe the right of Governments and Central Banks to take the decisions they judged to be in the national interest, after the consultations provided for. But the institutions set up would make it possible to go further--from the co-ordination to the centralisation of decisions. The Council of Central Bank Governors would become the nucleus of a federal banking system.

As an approach to a 1964-68 Community "programme" the Commission recommends that those responsible for the economic and financial policy of each State should meet each autumn under the auspices of the Commission to compare national income and State Budget forecasts for the following year, and discuss the effects of, and possible corrections to, their economic policies.

National delegations would also meet to discuss and compare national wages policies, based on discussions between officials, employers and trade unions, in an attempt to achieve a more equitable share-out of the fruits of expansion.

The Commission would draw up the first combined "programme," aiming to make the fullest use of the Community's resources, without inflationary tensions, by mid-1963. "A Community programme is a necessary guide for the plans or programmes which an increasing number of member countries are setting up. . . . It would first be an emanation of them, then an indispensable framework for them."

M. Marjolin drew attention to the now completed work of a group of experts from the six countries under the chairmanship of M. Pierre Uri, which had worked out a table forecast for the development of the Community between now and 1970, envisageing an increase in the gross national product of the six countries of 60 per cent.

Other Plans

The Commission's memorandum makes new proposals in many other fields:-

1--Mergers--Particular attention will be paid to cases where new dominant market positions are created in the Common Market, particularly when existing competition is limited or suppressed. Company law in various countries must be changed so that it does not unduly favour mergers.

2--Subsidies to industry--Community solutions will be proposed by the end of 1965 for the shipbuilding and film industries.

3--Purchase tax--Distortions of trade by remission of tax on exports and imposition on imports must be rapidly eliminated. National systems will be harmonised to avoid compensation taxes at frontiers.

4--Transport--Upper and lower limits will be fixed for international road and rail freight rates, and there will be a new system of "Community quotas" for international road transport. Pipelines for refined products will be subject to E.E.C. regulations.

5--Social security--The different national systems are to harmonise, along lines which may be suggested by a conference to be held at the end of this year.

6--Aid to less developed countries--Each member should make long-term commitments so that all were bearing an equivalent burden, after taking into account internal expenditure of the same type (an evident reference to Southern Italy).

Free Trade

7--Free trade--All tariffs and other obstacles to trade would be removed by the end of 1966, instead of 1969, as originally foreseen. All national tariff-free quotas would be abolished by end-1966 or end-1969 at latest, after which there would only be Community tariff-free quotas.

8--Capital movements--Companies are to be able to raise capital on the market, or loans from banks, in another member country without any conditions. A directive on the harmonisation of taxation on shares will be issued in 1963.

9--Tariff cutting negotiations with the U.S.--These will probably not begin until the end of 1963 or the beginning of 1964. An examination should be made of the extent to which tariff cuts should be accompanied by a harmonisation of the rules of competition.

[See Editorial Comment on next page]

Editorial Comment

A BLUEPRINT FOR EUROPE

Ever since the beginning of the negotiations which led to the signature of the Treaty of Rome, the six countries have--admittedly with a varying degree of enthusiasm and conviction--proclaimed that the objective was the creation of an economic union. The popular use of the term Common Market has thus perhaps served to obscure the real implications of what the Six have set out to do. The Treaty of Rome itself laid down in great detail the programme for the freeing of trade, but is much vaguer on such important subjects as monetary policy.

Filling the Gaps

The Eurocrats in Brussels have always maintained that these "gaps" in the Treaty would in due course be filled in, for the simple reason that they would have to be. They argued that if a number of highly industrialised nations formed one trading area, they would have to make provision for a far-reaching integration of economic policies. Now the Common Market Commission has published its blueprint for the future, explaining that the present was a particularly appropriate moment since prospective members or associates "may legitimately wish to know more precisely the significance" of the term "economic union."

In the Commission's comprehensive plan two points in particular stand out. The first is that the monetary problems which the abolition of barriers to trade and the movement of capital would raise have been faced. And the Commission has come to the conclusion that nothing less than a common currency--the report used the less startling words "monetary union"--is needed. Secondly, the Commission makes it clear that it too subscribes to the current vogue for economic planning.

The Treaty of Rome already lays down that a country in balance of payments difficulties should receive assistance from the other members. Now it is proposed that each member should earmark a proportion of its reserves for this specific purpose. This of course is nothing more than all the members of the International Monetary Fund have already done on a world-wide basis. But the Commission also envisages that the next step-credit creation --at which the I.M.F., or rather some important members of it, have baulked should follow rapidly.

The Europa?

Once that step had been taken, we would in effect have a European Central Bank. If such a move were coupled with acceptance of the Commission's proposal that exchange rates inside the Community should be fixed, a European currency--the Europa?--would in fact be created. The Commission specifically refers to the "fragility" of the present international monetary system and justifies its proposals also on the wider ground that "the appearance of a

European reserve currency would greatly facilitate international monetary co-operation and the reform of the present system."

There can be no doubt that this proposition is true. For Britain, whose economic progress since the war has illustrated the difficulties of running a reserve currency on too narrow a base of reserves, the switch from a sterling to a "Europa" system would almost certainly bring advantages. But if the creation of an area of free trade demands a common currency, then the creation of a common currency area demands the most far-reaching integration of economic and fiscal policies. This nettle, too, the Commission has grasped.

Planning the Whole

Whether the means by which this integration is brought about are called "consultation" or "co-operation" is really irrelevant. Granted the premise that freeing trade must lead to economic union in the sense in which the Commission interprets the term, its proposals and the arguments supporting them are logical. This, however, does not necessarily apply to the suggested adoption of planning on a European scale.

One could argue that planning--except to the limited extent necessary for developing distressed areas--is not something which Europe as a whole must go in for at this stage. But the hard fact here is that to a greater or lesser extent--and with varying success--all European nations do try to plan their economies. The Commission clearly believes that what is good for the constituent parts must also be good for the whole. The proposals themselves are of course only a plan. Before they could be put into practice they have to be adopted by national Governments. This will certainly not be an easy process. But at least the Commission has now provided its own blueprint for the new Europe. It has given supporters of its approach something solid to back and its opponents something to attack. In doing this, it has fulfilled a most useful task.