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Panel/Framing European and Atlantic cooperation: Historical structures and doctrines

« European Monetary Union, a factor of Foreign Policy between 1960-1971? »

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The main purpose of this paper is to study the connexion between monetary and foreign policies in the E.E.C between 1958 and 1971. Is foreign policy an accurate and appropriate word to qualify the conduct of external affairs by the E.C during the sixties? Obviously not, because it implies a real common management in the field of international relationships and at that time there wasn't. But that goes as well for monetary and economic policy, though the very principles of a common monetary policy were endorsed by the State-Members and even applicant states.

It is indeed uneasy to speak off economic and monetary policies during the sixties whereas the process of custom integration is a priority over any common integration. Yet we should'nt lay the emphasize on that point: as a matter of fact, the common management of the monetary ressources were not far from being reached, notably thanks to the creation of the European Monetary Board and the mid term economic policy board.

As regard to economic and monetary policies, foreign policy management seems more erratic and far more in embryo to the extent that it seems more fruitfull to consider it as a part of custom and economic integration. On the one hand, the study of custom integration and foreign policy is for long being undertaken, notably concerning the enlargement of the E.C to the U.K. On the other hand, the study of relationships between monetary and foreign policies remains a vast field to explore.

What kind of sources could be usefull to that study? I went through the archives of the European University Institute, mostly those concerning the European Movement, those of Monnet's Action Committe, and those of the found CEM:2 (Council of Ministers).

From a prospective point of view, the consultation of Lindon B Johnson Presidential Library would enable to appreciate the attitude of Kennedy's succesor towards *partnership* with the E.C.

Banking sources should also be helpfull, notably the archives of the Kredietbank of Brussels, those of the Monte dei Paschi di Siena. Central banking sources should also be of help, mostly those of the E.D.F (European Developpment Fund), the Bundesbank, the Banque de France and the Bank of England. Thus, there should a way to appreciate whether foreign policy of the EC in the sixties should be considered as a whole or simply drifted apart between one implied by custom integration and the other one implied by economic and monetary integration.

In order to appreciate the foreign policy implied by the E.M.U (European Monetary Union), we should at first try to appreciate wether the E.M.U is a pattern for european inter-relationships.

Chapter I-A pattern for european relationships?

What was the attitude of the European Commission, of the « noble committee » (and most of all the monetary board) towards economic and monetary integration as a factor of relationships between European States, wich means as well the relationship inside the Community as the relationships with applicant states such as Great-Britain?

The sources of the Community concerning the attitude of the European Commission towards E.M.U and foreign policy are even less explicit. Still, the bibliography can offer some usefull informations.

The monetary committe is set up by the Rome Treaty¹ on June 1958 and appears to have played a key role, although some proof has to be added in order to evaluate its exact role. As a matter of fact, the fund CEM/2 of the European University Institute in Florence concerning the European Monetary Board ends in 1961, though in Brussels it lasts till 1964. But the fund Trésor of the Ministère des Finances can supply some informations concerning the year 1961 up to 1962.

§1-The DGII, the evolution of the E;P;U (European Payment Unit) and the prospects of convergence of economic policies.

E.P.U is set up in 1950 within the O.E.E.C. As european currencies are not convertible, E.P.U displays the opportunity to multilateralize the debts of the member states. E.P.U is indeed a compensation system, meant to substitute for « the narrow working of the billateral payment agreements. »²

The European Monetary Agreement (E.M.A) takes force on december 1958. The E.M.A is to ensure the whole convertibility of the european currencies. Two means are aimed to reach that goal: the European Fund wich offers any member state financial supplies in case of temporary difficulties, and the multilateral settlements system ensuring to the Central Banks a guarantee of exchange.

In spite of this dubious context, the European Commission has a concern in the convergence of the economic policies, according to the article 103 of the Rome treaty and the aims described in the article 108.

In a document dated July 26, 1958, the Commission considers the two possibilities available to prevent any state member whose balance of payments is in state of emergency from erecting new kind of trade barriers. Else the E.P.U is maintained or the E.M.A takes at last into force.

Strikingly, the document appears to be no more than a note, most likely sent to the Council of Ministers: « Concerning the following thoughts, there is no need to make any such tactical

¹ article 105, paragraph 2

² Baron ANSIAUX, Michel DESSART: Dossier pour l'histoire de l'Europe monétaire 1958-1973, Vander. Louvain, p11, 166p, 1975

reflexions. »³What would have been the aim of these tactical reflexion? To deal especially with the enlargement of the EC, wich seems to be foreseeable at that time? Or else to find the best way to achieve convertibility?

Both of these aims imply close connection between monetary and foreign policy, yet the first one implies a broader conceiving of monetary policy, as a mean of widening the Community to her European Partners.

Declining any of those aims implies that the prospects of monetary policy convergence seem far from being at stake for foreign policy.

Has the tariff acceleration in 1962 changed the attitude of the Commission towards monetary integration? The Commission draw the monetary conclusion from the custom integration in her action programm, issued in october 1962⁴. She highlitenes the fact that economic and monetary union will only be effective after a transitory period, during wich exchanges rates between the members States will be stabilized.

Such a stabilization will led progressively to « ...a monetary union... »⁵. Thus, E.M.U could be the goal to be reached in the early 1965, as third step for the Common Market. Wich means that E.M.U is first and foremost a mean to achieve a European Integration among the Six. The range of priority is then obvious: at first the build of an internal E.M.U, then eventually an external E.M.U, as a mean to enlarge the Community.

The 1963 memorandum of the Commission reaffirms that range of priority. One of her key proposal to achieve E.M.U is to suggest that the Central Banks Governor Committee should compel each member State to consult his E.E.C partner on any move of the equivalence of exchange.

In March 1965, Robert Marjolin, vice-chairman of the European Community asks for common budget and credit norms. Since then the Commission mentions in her plea for monetary integration, the importance of the E.M.U as regard to the future of the international Monetary System. Still does that mean that economic and monetary integration is being recognized by the Commission as a key factor of the widening of the EC? The only way to answer to that question is to try to analyse the apprehension of the monetary problems induced by the Community to Great-Britain.

The Commission is very reluctant to consider the upholding of the pound as a reserve currency. »The fact that Great-Britain continues to manage a reserve currency would imply that this country should led an economic and financial policy that should at the time realize the aims of the E.E.C and be consistent with aims that are foreign to her. ⁶

The implementation of E.M.U in the process of enlargment seems to be a stiff one. Yet Edward Heath, british Premier, accept to abandon the statute of the pound as a reserve currency, during

³ E.U.I, DEP/PU n°55, Pierre Uri Fund, Monetary arrangements within the EC

⁴ E.E.C, action programm, 1962, in Walter HALLSTEIN, *die EG*, Econ Verlag, Bonn, p 135

⁵ idem

⁶ E.E.C, Press conference, 30 september 1967

a meeting with Georges Pompidou in mai 1971 without causing much troubles in the political spheres in Great-Britain.

So it seems that E.M.U should be regard as a flexible mean to achieve enlargement. Moreover, there is growing evidence among european officials that the international monetary system would benefit from E.M.U, wich is to say mainly that monetary union is considered as a way to achieve partnership between the E.E.C and the U.S.A.

§2-The board of directors of the E.M.A and E.M.U, from 1961 to 1962

The appreciation of the attitude of the board of director towards monetary integration and its role in european relationships is an uneasy one. Mostly because one has to tackle with the incomplete archives of the O.E.C.D. The found Press Conferences and Technical Informations is equally disapointing. But some usefull informations can be found in the Found Treasury of the Ministère des Finances, notably in the file B 44 825. That file deals with the sittings of the Committee, from 1961 to 1962. Valery Giscard d'Estaing, then minister of Finance stress the fact that the guarantee of exchange is a crucial point of these sessions. The aim of that guarantee of exchange is to uphold between safety margin the fluctuation of the currencies in relations either to other currencies, either to gold. Thus holding possessions in strong currencies such as the pound in the long term, the Member States of the E.M.A dispose of the means needed to step in their exchange market.

The question of the guarantee of exchange is of the utmost importance during those sessions, because the british representative Pecht wants to see it abolished.

During the 37th session, from 22 till 23 October 1962, Pecht stress the fact that the abolition of the exchange guarantee is needed as each european currency member of the E.P.U is convertible since 1955. Moreover, the british representative mentions pressures from Commonwealth members -mostly from Australia- to lift the guarantee.

Pecht offers to his partners « the freedom to sustain the currency of one member state in exchange of swaps »⁷ Swaps are a debt exchange between two parts. Thanks to the swaps, both sides can alter and modify their risks. Most of the Six 's representatives react against the british proposal, and notably the french an german ones. Yet the belgian representative de Strycker feels concerned with the safeguard of the british interests. He admits notably that the exchange guarantee system ensuring limitless amounts is no less than excessive. Does this lack of unity among the representatives of the Six means that the Monetary Union is useless, as no agreement concerning a common position in the Board of Directors of the O.E.C.D can be reached?

⁷ French Ministry of Finances, B 44825, 37ème session 22-23/10/1962

Chapter II-The monetary and economic effect of the enlargement of the E.E.C to Great-Britain

The aim of that study is to analyse the perception, among various branch of the European Movement, of the monetary and economic effects induced by the enlargement of the E.C. The sources analysed were essentially the archives of the European Movement, notably those concerning the national boards, mostly the french, german, and belgian ones.

For its part, Monnet's Action Committee is very found of the idea of the enlargement but doesn't focus much on the monetary and economic effects induced by the enlargement, despite its strong backing to the Robert Triffin aimed at realizing completion, that is to say E.M.U.

§1-The Action Committee facing monetary and economic effects induced by the british adherence to the E.C: enlargement, completion and the Robert Triffin Plan

Page 3 of the common declaration taken during the July 15 and 16, 1964 meeting the Action Committee lay the emphasis on the fact that Great-Britain has accepted the setting up of « common policies (including E.M.U) indispensable to a Common Market enlarged for becoming a vast inner market; comparable to that of the USA. »⁸. As a matter of fact, British members of the Action Committee like Lord Plowden are well aware that european integration won't be effective until E.M.U is implemented.

The strong desire of the Action Committee to reach completion is forwarded by the Robert Triffin Plan. Since 1957 and the publication of his work Europe and the money muddle, the famous economist has been taking care of the monetary problems of the forthcoming Europe. Triffin is exerting himself to elaborate a European Reserve Fund during the year 1967-1968, at a time when Great-Britain balance of payments records a huge deficit. Robert Triffin proposes a transitory period to realize the enlargement of the EC to Great-britain. Taking into account the significant amount of debts made out in sterlings, this project aims at guaranting a certain percentage of those debts wich implies that the gold guarantee links with debts in sterling should be multilateralized. Thus sterling balances are de facto guaranteed. Triffin states that this should be considered as « a grant from the Six to the UK »⁹. As soon as Triffin plan is being known, the state members seem to be infuriated. After Monnet's own words « the fund (ie the European Reserve Fund) seems to be meant only the funding of the british debts. »¹⁰Triffin is then driven to precise that the funding of the sterling balances he meant won't include the refund

⁸ EUI, Triffin Fund, DEP/RT AE1;7

⁹ Idem, RT/AE1;8 Jean Monnet to Robert Triffin, september 12, 1969

¹⁰ EUI, European Movement, DEP/ME 2073 Dieterlen Report

of the loans granted by U.S.A and Canada. Thus, seems to me that Triffin proposals were rejected only because he tackled with E.M.U dwelling too much on enlargement.

§2-National defence boards of the European Movements (except british Board), E.M.U and the british adherence to the EC

The french board of the European Movement tackles with monetary problems since september 12, 1960¹¹ wich is quite early. Indeed, neither the progress of the custom union, nor that of the political project at that time can force the french board to study the theme of « the Rome treaty and the monetary problem. » Furthermore the monetary background is a quiet one, as well inside the Commuunity as in the USA and in Great-Britain. The negotiations concerning the enlargement come to a deadlock: no headway are being made as the status of the Community is still being questionned: free trade area or real Community? Thus balances sterling problems are barely evoked.

But no further information can allow us to evaluate the concern of the french board with monetary problems. I went through the archives of the European Movement, notably the files number 2072 to 2074 and 1532 to 1533 and the rapport Dieterlen seems to be a single case.

What takes us aback is that the single document showing a concern in the monetary problems faced by the European Community was issued at a time when there was nothing to worry about. Can we assume a contrario, that the french board of the European Movement has been deeply interrested in the monetary and financials consequences of the enlargement to the UK, when the time has come? It is most likely, but then why is the Dieterlen report so single, among the documentation?

As for the belgian board of the European Movement, he seems mostly preoccupied with the inner life of the movement? Yet some experts in monetary problems of the E.E.C.L (European Economic Cooperation league) were also members of the belgian board. Yet is that enough to work out a comprehensive approach to the attitude of the belgian boards towards economic and monetary effects implied by the enlargement? Some evidence may be given of a strong backing to the process of enlargement. Thus Etienne de la Vallée Poussin, former chairman of the belgian board of the European Movement stress the fact that balance sterling are originating in « Great-Britain getting into debt to free France and Belgium »¹²during the session of the Federal Council in Berlin, from April 24 to April 25, 1971.

As for the Deutsches Rat der Europäischges Bewegung, ie the german board of the European Movement, it was deeply interested in E.M.U problems, notably during the second european m.p conference held July 5 and 6, 1969 in Bonn, without any solution to the sterling balances problems being mentionned.¹³

¹¹ idem

¹²EUI, European Movement, DEP/ME2073

¹³ EUI, European Movement, file n°1540

§3- *The Federal Trust facing enlargement and its monetary effects*

The attitude of the british élite favourable to the European Community towards E.M.U is at best expressed by the John Pinder Report introduced during the common meeting between the Club Jean Moulin and the Federalm Trust. This report asking for a single currency is all the more original than british financial milieu is not in favour of a common monetary policy at least during the sixties.

Thus, an article of the Economist published February 9, 1963 stress the fact that « for trading nations, money is manifestly better managed on an Atlantic basis than on a continental one, ... and some valuable workings arrangements based on this principle already exist. »¹⁴ Furthermore an Atlantic reserve fund is being asked in order to enable the growth of trade relations between E.F.T.A (European Free Trade Area) and the Common market, trade relations treathend by the setback of the Maudlings committee.

This article shows distrust and annoyance towards multilateral payments agreements and notably towards the E.M.A (European Monetary Agreement) whose inefficiency it tends to prove. Indeed, only the institution of agreements between central banks and more specifically the swaps as well as an Atlantic fund can be usefull. But the key factor that compells the financial milieu to act in the monetary field is the desire to build up an atlantic community of interets wich is close at hand, as monetary policy is still not a key element of de Gaulle's foreign policy: « One obvious field, not yet preempted by General de Gaulle is monetary policy... »¹⁵ De Gaulle 's foreign policy seems to induce to adopt a position on monetary policy, whatever the british milieu considered and its attitude towards E.M.U. The Federal Trust, still highly favourable to E.M.U is driven to criticize the monetary element of de Gaulle's foreign policy, that is to say Jacques Rueff's plan to solve the problem of growing international liquidity assets. The Federal Trust takes for granted that the british people is ready to share the benefices originating from the management of the sterling balances with EC member states, as long as they are willing to share the british liabilities for exchange guarantee. The proposal of a common management of the sterling balances looks very much alike one of the proposal of the Triffin plan creating an European Reserve Fund, yet the Federal Trust rejects it in the short term. The I.M.F seems to be the most appropriated way to act on the sterling balances: « A new reserve unit could be created by the I.M.F which those holding balances could buy with their sterling, thereby placing Britain in debt to the I.M.F. »¹⁶

A step further could be the use of the sterling as european reserve currency, on condition that sterling balances should be guaranted by the Member States.

¹⁴ Ministère des Affaires étrangères, Papiers directeurs Olivier Wormser, fond Olivier Wormser, article The Economist, *Marshalling the mutineers*

¹⁵ Idem

¹⁶ idem