Economic and monetary cooperation

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The 1957 Treaty of Rome referred to the idea of a common monetary policy in Articles 103 to 108 and to the free movement of payments and capital in Articles 67 to 73. Since the end of the Second World War, the notion of a European monetary system had been a recurring theme in the manifestos of several European federalist movements. However, the idea still met with strong reservations. The treaty provisions covering monetary issues were therefore rather cautious, and neither the Commission nor the Council had any binding powers in the area of monetary coordination. The Treaty simply referred to the creation of a Monetary Committee with an advisory role. It was plain that monetary cooperation was not an urgent matter, given that the six Member States had balance of payments surpluses and the international monetary situation was stable. It appeared unrealistic to create an independent monetary system which did not include the US dollar or the pound sterling. Moreover, at the time many people thought that the move towards monetary unity in Europe could be achieved without relinquishing monetary sovereignty.

In 1962, a memorandum from the European Commission on the Community's action programme during the second stage of monetary union included a chapter on monetary policy. It provided for the introduction, after the transitional period, of fixed exchange rates for the currencies of the six Member States. The Commission also recommended the creation of a Committee of central bank governors, eventually set up in 1964, as well as a procedure for prior consultation on internal monetary policy. At the same time, the European Parliament was devoting some of its debates to the Community's future activities in the monetary sphere. Apart from occasional positions taken by the Monetary Committee, which had been meeting on a regular basis since 1958, or by the Action Committee for the United States of Europe, led by Jean Monnet, there were no momentous advances in this area at this time.

The first tangible attempt was made on 12 February 1969, when Raymond Barre, Vice-President of the Commission and personally responsible for economic and financial matters, sent a memorandum to the Council on the coordination of economic policy and monetary cooperation in the Community. The Plan was a direct response to the November 1968 monetary crisis in the wake of which the French franc was heavily devalued in August 1969 by 12.5 %, followed by the floating and then an upward revaluation of the German mark of 9.3 % in October 1969. Meanwhile, the growing indebtedness of the United States was increasingly eroding the dollar's international credibility and, consequently, that of the system of fixed exchange rates laid down in 1944 under the Bretton Woods Agreements. The Barre Plan advocated measures designed to harmonise economic policy and laid down measures for mutual assistance in monetary matters in order to prevent a worsening of economic imbalances. It also defined short-term monetary support and medium-term financial assistance among the Member States.

At the Hague Summit, on 1 and 2 December 1969, a decision was taken, on a proposal from the German Chancellor and former Finance Minister, Willy Brandt, to draw up a step-by-step plan with a view to creating a European economic and monetary union. On 6 March 1970, the Council instructed the Luxembourg Prime Minister and Minister for Finance, Pierre Werner, to chair a committee mandated to pinpoint the fundamental options for the gradual creation of an economic and monetary union among the six Member States.

But the international monetary climate was no longer very conducive to plans for European monetary union. The International monetary system was going through a succession of crises, ranging from a series of speculative attacks on the dollar via the introduction of a foreign exchange system in some European countries to the suspension of the dollar's convertibility into gold, which was the mainstay of the Bretton Woods system. This climate of monetary instability finally forced the European authorities to set up the European Community's own monetary system. In March 1972, the six Member States created the *European currency snake*, designed to guarantee a certain amount of stability by narrowing the fluctuation limits for the exchange rates between European currencies. Determined to continue on the road to economic and monetary union, the Heads of State or Government also decided, in October 1972, to create the European Monetary Cooperation Fund (EMCF).

Although the *snake* exchange-rate agreement managed to alleviate the 1972 European currency crisis, the

relative weakness of the British pound and the Italian lira was such that they could not remain for long within the system. The Danish crown also left the agreement in June 1972 but rejoined four months later. France, with Germany a co-founder of the snake, also had to leave it in January 1974 and again in March 1976. A new devaluation of the dollar resulted in currencies being floated in 1973, and the first oil crisis caused a rapid imbalance in the external payments of the nine Member States. Grappling for the first time for many years with a serious economic recession, the EEC Member States reacted in an uncoordinated fashion, each struggling to protect its own national economy, thereby demonstrating all the more clearly the wide disparities between them.

The failure of the currency snake was patently obvious, and the idea of an integrated monetary arrangement gained in strength. The President of the French Republic, Valéry Giscard d'Estaing, who came to power in 1974, and the German Chancellor Helmut Schmidt, elected in 1976, revised the idea of a common economic and monetary policy with the introduction of the European Monetary System (EMS) in July 1978 and its entry into force on 13 March 1979. The EMS was designed to stabilise exchange rates between the currencies of the Nine around a central rate, which was in turn pegged to the European Currency Unit (ECU).