'Mr Jenkins' seven arguments in support of a European currency', from 30 jours d'Europe (27 October 1977)

Caption: On 27 October 1977, at the European University Institute (EUI) in Florence, Roy Jenkins, President of the European Commission, gives an address in favour of the implementation of European monetary union. Two months later, the monthly publication 30 jours d'Europe analyses Mr Jenkins' proposals and highlights their strong points.

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Mr Jenkins' seven arguments in support of a European currency

'Do we intend to create a European union or do we not? Do we, confronted with the inevitable and indeed desirable prospect of enlargement, intend to strengthen and deepen the Community, or do we not?' Or should we consider that most countries in the Community have tacitly come to accept the idea of Europe developing into a 'loose Customs Union'?

These questions were put by the President of the European Commission, Roy Jenkins, in a speech given at the European Institute in Florence on 27 October. He has since discussed them with the Federal Chancellor, Helmut Schmidt, with the Italian Prime Minister, Giulio Andreotti, and recently at Matignon during talks with Mr Raymond Barre.

United we stand, divided we fall

In fact, the basic problem raised by Roy Jenkins concerns more than just the short- or medium-term future of Europe. It can be summed up as follows: there are more than six million unemployed in the Community and this number is likely to rise, inflation could 'take off' again at any moment, fluctuations in the dollar are forcing our governments to change tack constantly, which limits the effectiveness of their economic measures, and true sovereignty no longer resides in our capitals but in Washington, Switzerland, the Middle East …

Given all this, it is a sure bet that we, the French, the British, the Italians, the Danes, will emerge as losers from this international economic crisis unless, together, we try to regain some of the power that is slipping from us a little more as each day passes.

This is why, according to Mr Jenkins, we should no longer be content with ad hoc measures but should seriously consider the prospect of a single currency for Europeans, something which could help our countries emerge from a crisis that, we all know, will be long and fraught with danger.

What can help us shake off some of the scepticism that, since the failure of the Werner Plan, any reference to Economic and Monetary Union has provoked, and take a fresh, 'bold' look at this Union in all its ramifications?

Roy Jenkins' solution is a single European currency that would allow us to tackle in a much more effective way the 'apparently intractable problems of unemployment, inflation and international financing.'

The fight against inflation

Let us follow the logic of the European Commission's President, which will be the starting point for the great debate on the European currency.

1. To begin with, he believes that a common European currency would help stabilise international monetary relations. What is more, Community countries would be able to 'rid themselves' of their short-term balance of payments concerns and, 'in relative equanimity', come through periods of unfavourable trade balances and erratic movements in exchange rates. That is the first point.

2. But, at the same time — and this is Mr Jenkins' second argument — the creation of a stable monetary zone would be a first, major contribution to the fight against inflation, which no doubt has many causes but which is certainly fuelled by economic and monetary uncertainties, especially those affecting our national currencies.

Furthermore, 'the issue of a new single currency by a European monetary authority' should necessarily take place 'following the best traditions of our least inflationary Member States', adds the European Commission President. Is that too much to ask? Roy Jenkins replies with a further question: is it not the case that those governments that do not submit to self-imposed discipline (the United Kingdom and Italy for example) are already having to accept very strict supervision by the International Monetary Fund, the infamous IMF, ‘a body far further away from them and less susceptible to their individual views’?

The fight against unemployment

3. The third argument is unemployment. ‘The extent and persistence of unemployment can no longer be seen as an exceptionally low and long bottom to the business cycle’, according to Mr Jenkins. Therefore, ‘to restore full employment requires a new impulse on a historic scale.’

Monetary union can create an enabling environment for an investment revival and increase demand by providing a broad geographical base and relative price stability, sheltering it from exchange rate fluctuations and erratic capital flows. Hence the conditions necessary for full employment would be met, at least in part.

A political move

Besides these three key arguments, which are new ones since they address our current concerns, we could add two, more well-worn ones.

4. First, monetary union would bring about more effective and thorough-going rationalisation of industry and trade, which is clearly needed if we consider for a moment Europe’s ageing manufacturing infrastructure, the result of the investment freeze.

5. Also, ‘the successful creation of a European monetary union would take Europe over a political threshold’ in a way not seen before. The decisions that have to be taken are clearly of a political nature. In essence Mr Jenkins is saying that people will counter with the argument that the union cannot materialise because of the different choices our governments have made between inflation and unemployment, between stable currencies and exchange rate fluctuations, etc. He pre-empts these arguments by saying that they are based on a theory that is ‘obsolete, inadequate, or irrelevant. […] This is not how the world really is, and we all know it.’ However, it is one thing to know it and quite another to say it!

In Roy Jenkins’ sixth and seventh arguments, he defines the two conditions that are *sine qua non* if the idea of European monetary union is to be taken seriously.

The conditions for success

6. Condition number 1: ‘the weak regions of the Community must have a convincing insurance against the fear that monetary union would aggravate their economic difficulties’, while ‘[the strong regions have an overwhelming] interest in the underpinning of the unity of the market’ so as to be able to count on ‘more stable, secure and prosperous markets’. Hence: the financial instruments currently available to the Community — ‘rather small guns’ (Regional Funds, ECSC, EIB, EAGGF) — have to be considerably strengthened.

7. Condition number 2: monetary union means not just ‘a substantial increase’ in the transfer of funds through Community channels — according to one group of independent economists, a genuine monetary union could be viable with Community expenditure at 5 to 7 % of GNP whereas the current budget is in the region of 1 % of total Community GNP — it would also require transferring to a common ‘authority’ ‘[the management of] the exchange rate, external reserves’ and ‘bank money creation’.

The political ramifications of such a transfer of powers are clear, but it is vital that they be properly assessed. First, because our countries no longer enjoy real monetary sovereignty, and secondly because the type of monetary union towards which the Community would move would, in fact, be a very decentralised one. Governments would continue to play a dominant role and the Community would be restricted to ‘a few high-powered types of financial transfer’. Its resources would not in fact be comparable with the situation now prevailing in federal structures where the central government absorbs 20 to 25 % of GNP. A relatively small central bureaucracy would be sufficient, something that ‘we would all consider an advantage.’

The debate has been launched

Those, in essence, are the ideas put forward by the President of the European Commission in his Florence speech. When he delivered it, Mr Jenkins was aware not only of the scepticism surrounding all Community business today, but also, and above all, of the defeatism into which most, if not all, countries are sinking. That is another reason for not filing these proposals away in the bottom draw with other forgotten or 'déjà vu' ideas. Or else it has to be convincingly demonstrated that monetary union would have the opposite effects to those that the President of the European Commission forecasts, meaning more unemployment, more inflation and more social insecurity. The debate has been launched.

B.L.-F.