

'The lame-duck ecu', from La Libre Belgique (9 October 1978)


Caption: On 9 October 1978, the Conservative daily newspaper La Libre Belgique considers the operation of the European Monetary System (EMS) and reveals the technical limitations of the unit of account used by the Nine: the ECU.

Source: La Libre Belgique. 09.10.1978, n° 343/344. Bruxelles: Edition de la Libre Belgique S.A. "Un ECU boiteux", auteur:Z; J. , p. 1.

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The lame-duck ecu

The reservations expressed by Italy and Ireland with respect to their membership of the new European Monetary System, together with Britain's temporary rejection, have caused considerable disappointment amongst supporters of European unification.

However, that will not prevent an exchange rate stabilisation mechanism that is both broader and deeper than what used to be called the 'snake' from being in place by 1 January. It will be broader since the French franc will be in the club of stabilised currencies and it will be deeper because significant steps will be taken to protect the system from speculative attack.

For us as Belgians, the involvement of France in the European Monetary System is very positive because our southern neighbours account for one fifth of our exports. The value of our sales to France fell by 3.5 % last year. Exchange rate stabilisation should allow us to win back some lost ground.

The fluctuation margins originally planned for the Italian lire and the Irish punt were 6 % either side of the central rate, or 12 % in total. While the negotiators believed that these margins had to be gradually tightened, there is no escaping the fact that the stabilisation planned for this first stage was quite symbolic. The fluctuations experienced over recent months by the currencies concerned have never exceeded the planned 6 %. Ireland's and Italy's abstention should not be seen as dramatic, provided, of course, that their governments implement reasonable financial and budgetary policies.

It should not be forgotten that fixed exchange rates are not enough to guarantee exchange rate stability, as is shown by the repeated failures since the Werner Plan.

This applies in particular to the French franc. That currency will, rightly or wrongly, be seen by many observers as the weakest in the snake, and Raymond Barre must inspire confidence, despite attacks from Jacques Chirac, to allow France to honour its commitments. The rate at which the French franc will enter the snake is not yet known, but, barring any surprises, it should not differ greatly from the current rate, which has been relatively stable since the hiccups in the run-up to the March 1978 general election.

What is more important for the future is to bring the inflation patterns in the various Member States of the Community more into line with each other. Of course, exchange rate instability can add to inflationist pressure, as the Italian and British experience over recent years has shown, but it should not be thought that a return to fixed exchange rates will eliminate it.

Europe must therefore create the internal conditions for stability. However, that will not be sufficient while the dollar remains what it is: an international currency widely used in Europe and subject to the whims of one country's economic policies, even if that country is the most powerful in the world.

It was foreseen at the Bremen Summit that the ecu, as a sort of new European currency, might replace the dollar in transactions between the Community's central banks, in the hope that it would gradually take over in private transactions as the reference currency for commercial contracts, bond issues and bank deposits.

The absence of Italy, the United Kingdom and Ireland, which together have considerable weight, certainly does not favour the use of the ecu as a currency insofar as it creates considerable technical problems.

As we know, the ecu is defined as a 'basket' of currencies. The currencies of those countries that are not in the system will be taken into account in defining the ecu at a rate fixed once and for all and frozen, without it being a 'pivot' rate. Such tricks could render the ecu very inflexible on the currency or capital markets.

Community Finance Ministers who are to meet on 18 December next will have to resolve a number of technical problems before the ecu can fulfil its mission. We shall leave it to the experts to come up with solutions.

However, at all events, until all European currencies have been integrated into the system with reasonable fluctuation margins, the ecu will be nothing more than a sort of Community-level special drawing rights system, that is, a currency for transactions between central banks. A step has been taken towards emancipation from the dollar. It is a significant step, the importance of which should not be understated.

However, it will be a long time before banknotes with the symbol of the Europe of the Nine or the Twelve will be in cross-border circulation.

As Alfred Sauvy stressed in a local radio broadcast, a currency is synonymous with power, but we shall not have a common currency until we are prepared to share sovereignty.

J. Z.