'The Pompidou-Brandt agreement relaunches the European currency', from Corriere della Sera (18 February 1972)

Caption: On 18 February 1972, the Italian daily newspaper Corriere della Sera lists the new measures put forward by the German Chancellor, Willy Brandt, and the French President, Georges Pompidou, in order to combat the monetary crisis currently affecting Europe.

Source: Corriere della Sera. dir. de publ. Spadolini, Giovanni. 18.02.1972, n° 40; anno 97. Milano: Corriere della Sera. "L'accordo Pompidou-Brandt rilancia la moneta europea", auteur:Lenti, Libero , p. 6.

URL:
http://www.cvce.eu/obj/the_pompidou_brandt_agreement_relaunches_the_european_currency_from_corriere_della_sera_18_february_1972-en-8cf23a42-7edd-48c3-bac9-a692bab9ceb3.html

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‘WERNER PLAN’ REVIVED

Pompidou–Brandt agreement relaunches the European currency

Are we about to witness the establishment of a European currency? It would seem so, following the decision by the two ‘great men’ of the European Economic Community (EEC) to call for economic and monetary union, as in the Werner Plan. One does not need to be a prophet to predict that we may have to wait a long time. But in the meantime Pompidou and Brandt, great antagonists in monetary and other matters, have agreed to revive the Werner Plan, dormant since last year’s notable events culminating in the December agreements. It was hoped that those agreements would provide more detailed information about the operation of the international monetary system.

But detailed information was not forthcoming. The most that can be said is that dollars did not flow from Europe to the USA as many had expected. Dollars, or rather euro-dollars since they are in circulation outside the US monetary area and mainly in Europe, have stayed where they were. Hence the fears of fresh waves of speculation against the European currencies. Those who have marks, guilders, francs and even lire want to keep them. They don’t want dollars. This became quite clear when the lira-dollar exchange rate fell from 594 lire to the dollar just before the December agreements to the current rate of 586 lire to the dollar, in other words to central parity. The increase in the market price of gold is a further indication of a certain lack of confidence in the effectiveness of the December agreements.

Technical reasons

It is true that there are technical reasons why circulating capital does not find its way back across the Atlantic. Even in the case of short-term investments, there are problems about moving such capital from one market to the other. Apart from anything else, there are deadlines to be met. But that is all past history and the main reason now seems to be the difference between the current interest rates on the European and US markets respectively. Investing such capital here, that is to say in Europe, brings better returns than investing it in the USA, which is currently pursuing a cheap money policy.

However, the fact that this capital is still in Europe does not help trade within the EEC. Or, to be more precise, it increases the risks. The risks involved in keeping the margin of fluctuation between the various currencies, including the dollar, at 0.75 % above or below official parity were relatively small so long as the central banks, including the Bank of Italy, were prepared to intervene to smooth out any awkward points that might arise in connection with momentary imbalances between supply and demand for the currencies in question.

But now, following the December agreements, the margins of fluctuation have risen to 2.25 % above or below central parity. The risks for economic operators have become much greater and this applies not only to trade with the dollar area, still contained to no more than 4.50 %, but also to trade within Europe, which is steadily increasing. In this case, fluctuations between the various European currencies could become even greater and might even, theoretically, reach as much as 9 %.

Closer ties

It is therefore essential gradually to reduce the margin of fluctuation applicable to exchange transactions between European currencies. When the Werner Plan was first discussed, the margin was 0.75 %. It was initially intended to reduce it to 0.50 %, but even then it was not entirely clear whether the reduction was to apply to all exchange transactions, including transactions between European currencies and the dollar. Now, however, everything is perfectly clear. The margin of fluctuation between the various European currencies must be reduced and the margin between those currencies and the dollar must be maintained.

In this way, a European monetary area will gradually take shape, characterised by ever closer ties between the currencies within the area, which will fluctuate together in relation to the dollar within a fairly wide margin. A European currency will follow in due course, but there is no need to suppose that at a given moment all exchange transactions in the European area will be governed by a single currency unit, a European ecu for example. The various countries will probably want to retain their own currency units, but that will do, so long as there is a fixed rate of exchange between the currencies in question.

Of course the European central banks will have to intervene, in order to keep fluctuations in the various currencies within increasingly strict bounds, buying and selling European currencies so as to prevent the exchange rates between them from exceeding the agreed margins in either direction. Some of the provisions recently adopted by the Bank of Italy are intended to achieve precisely that result. But they will also have to intervene together on the market in short-term circulating capital in order to confront and put a stop to any speculation encouraged by the weakness of one European currency vis-à-vis another.

We may have to wait a long time. I have said it once and I say it again. Don't forget that Britain has joined the EEC. In order to join, it undertook gradually to reduce the position of sterling as an instrument of international monetary liquidity. But, technically, the London market is still highly, indeed extremely, effective as a clearing house for short and medium-term international capital transactions. So, if we are to establish a European currency, it is not enough that France and Germany agree. Britain must agree too and so, incidentally, must the other EEC countries. And this agreement must cover not just monetary policy in the strict sense of the term but also economic policy in the broad sense. It will therefore be very difficult to reach.

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