

'The conclusions of the "Ten"', from Corriere della Sera (2 December 1971)

Caption: On 2 December 1971, the Italian daily newspaper Corriere della Sera analyses the difficult progress of the negotiations being conducted between the European Economic Community (EEC) and the United States with a view to resolving the international economic and monetary problems resulting from the collapse of the Bretton Woods system.

Source: Corriere della Sera. dir. de publ. Spadolini, Giovanni. 02.12.1971, n° 283; anno 96. Milano: Corriere della Sera. "Le conclusioni dei «Dieci»", auteur:Lenti, Libero , p. 1; 2.

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The conclusions of the ‘Ten’

Those who forecast that, following the measures taken in mid-August in the monetary and customs fields, the negotiations for getting the international monetary system back on its feet would prove lengthy and difficult were not wrong. They have been proved right by the disappointing outcome of the Rome meeting of the representatives of the ‘Group of Ten’ most industrialised countries in the world: yet again, all they did was compare their respective and differing positions. The negotiations are going to take time because the fundamental issue is to devise rules that can take the place of the arrangements established at Bretton Woods in 1944 and gradually patched and darned over time. Matters are further complicated because, while in 1944 the search for a solution was in the hands of just two countries, the United States and Great Britain, now at least ten countries — leaving aside those of the Communist bloc — believe they are entitled to a say.

Nothing concrete for the moment then. By way of consolation, we will be told that the meeting was useful because it was an opportunity to air the various positions, which will make it possible to reach a compromise in the end — at some time in the future — as regards the solution of both short- and longer-term problems. And a compromise will indeed have to be reached. But it is small consolation, because the two positions, that of the United States and that of the other nine countries, have long been only too clear. If anything, in Rome the United States put forward even more inflexible proposals than we might have feared. Particularly bearing in mind that the nine still have to iron out their own conflicting positions. In fact, the United States sought to exacerbate matters so as to boost its own negotiating position.

The United States wants to get its balance of payments back on an even keel, albeit over a two- to three-year period. It therefore wants to achieve a strong positive balance in its trade in goods (currently negative). If it succeeds, such a balance, combined with a positive balance in its trade in services, including return on capital investment, could offset the substantial negative balance of foreign aid and capital movements. So, the main goal of the United States at present is to reverse the position in its trade balance, that is to say in relation to imports and exports of goods. That explains, though it does not justify, the additional 10 % duty to curb imports, and also explains US efforts to obtain a revaluation of the currencies of the nine other countries vis-à-vis the dollar in order to facilitate its own exports.

The nine, though there is some internal disagreement, concur that it is appropriate to revalue their currencies in relation to the dollar, particularly if the dollar is devalued in relation to gold. That would make it possible to revalue their currencies to a lesser degree in relation to the dollar and, therefore, to a greater degree in relation to gold. But revaluation cannot be the same in percentage terms for all of the currencies. Their different economic situations must be taken into account. Given that this involves redrawing the currency maps, it is worth establishing new and more realistic par values for exchange between the different currencies.

Without wishing to dwell overlong on this issue, it is clear that Italy’s economic situation now necessitates minimising revaluation of the lira against the dollar and thus maximising its devaluation against the other currencies. Only then can our exports of goods and services continue at a reasonably satisfactory pace. But, as I just mentioned, in Rome, the United States tried to thwart the position of the other nine, by proposing, for example, an average revaluation of the various currencies in relation to the dollar, equivalent to 11 %. It is clear that if one currency cannot be revalued, like the lira, then other currencies will have to be revalued to a much greater degree than envisaged in order to achieve that average.

Determining new par values against the dollar, albeit on a differentiated basis, is strictly linked to the abolition of the 10 % additional rate of duty, and that involves looking at monetary and commercial issues at the same time. These are thorny problems, particularly since the United States — yet again in an effort to bring its trade balance into the black — is intending to link the abolition of the additional duty to an increase in its agricultural exports to the EEC countries, and to get the Europeans to shoulder more responsibility for military spending, aid to the developing countries and so on.

Another sensitive issue is a return to fixed exchange rates, albeit with broader margins of fluctuation to make the system more flexible. As things now stand, exchanges between the different currencies are not

fixed. But this is in theory only. In practice, the central banks have managed to retain the par values within adequately controlled margins. The rate of exchange between the dollar and the lira, for instance, has never fallen below 610 lire, but there is clearly a need to formalise the action of the central banks, both by determining new fixed par values and by establishing broader margins of fluctuation, both upwards and downwards, in the region of 2 % to 3 % for example.

This month Nixon will be meeting a number of European representatives, and it is likely, indeed certain, that the opportunity will be taken to discuss monetary issues. In other words, the United States is seeking to transfer those negotiations from a multilateral to a bilateral level. But the European countries should not allow themselves to be sidestepped by that tactic. They should actually see it as a rallying call to strengthen their common front vis-à-vis the United States. In that connection, the forthcoming meeting between Pompidou and Brandt could prove useful in settling once and for all the usual disagreements between France and Germany.

That common front could help bring about a solution, if only temporary, to the monetary issues on the table. There has been so much talk of creating an embryonic common European currency. This would be based on a graduated revaluation of the different currencies in relation to the dollar, and the adoption of fairly strict margins of fluctuation between the European currencies, but of rather broader margins for the block of European currencies in relation to the dollar. All of that would be dependent on greater use of European currencies in settling the individual countries' balance of payments. This is a far from satisfactory solution. It is actually a stopgap solution until the United States begins to understand European interests better.

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