

'Monetary issues and the Six', from Le Monde (4 December 1969)

Caption: On 4 December 1969, in its coverage of the decisions taken at the Hague European Summit of 1 and 2 December, the French daily newspaper Le Monde considers the monetary policy of the Six and their determination to establish an economic and monetary union.

Source: Le Monde. dir. de publ. BEUVE-MÉRY, Hubert. 04.12.1969, n° 7 742; 26e année. Paris: Le Monde. "Les Six et la monnaie", auteur:Fabra, Paul , p. 1; 3.

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Monetary issues and the Six

by Paul Fabra

The double change in parity, involving the devaluation of the French franc and the revaluation of the German mark, had a clear impact on the EEC's two most important currencies and demonstrated the fragility of the common agricultural market. The difficulty then was to come up with a plausible programme for monetary cooperation agreeable to all the Heads of State or Government meeting in The Hague. It is clear that, given the prevailing circumstances, the best guarantee of the smooth running of the EEC is through each Member State's finance policy. In the long term, no support mechanism, not even an EEC one, could prevent further monetary accidents, similar to those we have recently experienced, if the rate of inflation, or even deflation, were to vary widely from one Member State to another. From 1959 to the spring of 1968, the six Member States appeared to have left monetary turmoil behind, but the far-reaching social crisis in France was enough to jeopardise everything. It is conceivable that the French crisis might never have taken place had the problem of the relatively over-valued German mark been faced.

In a monetary system suggesting more a balancing act than balanced finances, the fixed parities, nonetheless necessary in a customs union of the sort in which the six Member States are engaged, will inevitably come under threat. At all events, the maintenance of those parities has to be an objective of every participating government's policy. As the Communiqué states, 'the very existence of the integration process is proof of future stability', but recent experience has shown that the process is not all that reliable.

Consequently, the long-term objectives set out in paragraph 8 of the Communiqué appear quite ambitious, proposing the 'creation of an economic and monetary union', an expression that, while relatively modest for the time being, might, in time, require clarification.

The Council of Ministers of the six Member States has been urged to adopt the Barre Plan for economic and monetary cooperation, officially entitled the 'Commission Memorandum to the Council on the Coordination of Economic Policies and Monetary Cooperation within the Community (12 February 1969)'. The Plan was already approved in principle last July, but the practical arrangements for implementation, which are the crux of the plan, still have to be devised. The basic aim is to set up a rapid reaction mechanism for the EEC, should another monetary crisis boil over.

Although that mechanism is new to the EEC, a number of similar ones, such as the two examples below, already exist among Western countries.

(a) Under what is known as swap agreements, central banks may, if a sudden need arises, grant each other short-term loans, usually for a period of three months, renewable two or three times. For example, if the Banque de France obtained urgently-needed dollars from the Federal Reserve in New York, in exchange the Banque de France would remit French francs to the Federal Reserve. In this example, the Federal Reserve would not actually use the francs it received, but they would help increase its reserves of foreign exchange and enable it to counter any deflationary effects in the United States that a loan in dollars granted by the Federal Reserve to the Banque de France would normally cause.

(b) Loans repayable in three or five years may be granted by the International Monetary Fund (IMF) to countries wishing to consolidate their short-term debt.

France's partners, especially Germany, believe that monetary problems should be tackled in the broadest forum possible, either by means of the swap network, in which the United States, the United Kingdom, the six EEC Member States, Japan, Sweden, and others participate, or via the International Monetary Fund. It makes little sense, according to France's partners, to handle the assistance that the European countries can offer one another separately, a strategy which requires the participation of the United States in order to be effective. However, France disagrees and sides with the European Commission in the belief that Europe should have its own mechanism, which would amount to putting a Community stamp on the portion of financial aid provided by the EEC Member States.

In July, the Six had appeared even more reticent about the chapter dealing with medium-term loans. No decision, not even a decision of principle, had been taken. For its part, France would prefer a scheme that grants loans under conditions that are easier to meet for the debtor than those imposed by the IMF. But France's partners strongly disagree with that idea, one which goes even further than the Barre Plan.

Technically speaking, the mutual assistance granted under that scheme might lead to the setting up of a common reserve fund, a possibility outlined in the Communiqué. It is much too early to determine how large the reserve fund should be, but some think that it could be equal to the amount of the Special Drawing Rights which the IMF will make available to the six Member States next year. At the same time, the creation of the reserve fund would cost the EEC central banks next to nothing because the Special Drawing Rights are acquired without repayment obligations.

All these issues will be considered by the EEC's Monetary Committee. Will France also call for a consideration of the proposal put forward by Mr Pompidou, which was omitted from the Final Communiqué, to appoint a single spokesman to represent the EEC in the IMF?