

'Does the European Monetary System have a future?', from Europe (20 September 1979)

**Caption:** In his editorial of 20 September 1979, Emanuele Gazzo, Editor-in-Chief of Agence Europe, ponders on the conditions for the political and economic success of the EMS.

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## Does the European Monetary System have a future?

Yesterday evening, we heard the French Minister for Economy, Mr Monory say to a journalist questioning him about the EMS on the radio: "It is a major political step along the road to the economic and monetary union of Europe".

The EMS is doing well, he said yesterday. Although encouraging, Mr Monory's brief comment leads to another question: does the EMS have a future? The key to the answer lies in the adjective used by the minister - political. When we said yesterday that the EMS would be unable to keep pace with events if it were merely an "exchange mechanism", what we meant was that by its very inspiration, the complex operational scheme it has to deal with, the implicit and explicit aims it involves, the EMS is a political fact, which will have political consequences and which is likely to change the "present" nature of the Community. To be more precise, it will make for a move towards real union and in any event, as Mr Monory said, towards an economic and monetary union.

It is this political factor that counts and means that the positive conclusions of the review after six months of operation are a first step, basically because of the "political content". But it is only a first step and there is a long way to go yet. The existence of political determination and respect for the schedules are both important factors because new schedules have been fixed for other measures whose political scope is even greater.

It is not in the purely technical aspects - some of which we discussed yesterday - that the EMS's future as a political instrument lies. Let us not forget that on the basis of the technical aspects of the venture, eminent experts and economists predicted on several occasions, both before and after it was adopted, that the EMS would be a resounding failure. For the time being, and on a troubled market, these predictions have been proved wrong by the very facts. Correct functioning of the exchange and intervention mechanisms very probably has its problems, as is the case with any exchange mechanism managed nationally. There will always be differences over some point or another; the main thing is that coordination between the organisations at the centre of the mechanism, i.e. the Central Banks, works properly, as has been the case. The use of the alarm mechanism can give rise to various interpretations without inasmuch breaking down and without calling into question its fundamental role which is an obligation to act in plenty of time whilst maintaining that vital symmetry. Furthermore, even though one or several of the central rates may have to be changed, once could certainly not say that the EMS had failed in its job.

The conditions for success lie elsewhere, namely in the gradual elimination of the causes that make "adjustments" objectively necessary at any given time and in proper organisation of these same adjustments. Success is also to be found in aligning inflation rates at the lowest level possible and this, (as described in the excellent report in No. 3 of "The European Economy" published by the Commission's Directorate General for Economic and Financial Affairs) without either inflationary or deflationary deviations.

This leads us to take another look at the vital political condition, which, depending on whether it is fulfilled or not, will enable an answer of "yes" or "no" to be given to any question put to it. This condition is that the effort to align performance of the national economies - which would not be cosmetic but would give the EEC's economy homogeneity and consistency - is crowned with success. It should be said that the available tools (for example, the so-called "reference document") will not help us to reach any positive conclusions right now. Seen in this light, the harsh assessment given by Mr Dean Hinton, the United States' Ambassador to the Communities, with his usual candour (N.Y.H.T. of 11/9) deserves a second glance. Especially as it is well known that Mr Hinton has always been inspired, both in word and deed, by a real desire to see the Community's economic and political integration move ahead. Mr Hinton hoped for more, and has been disappointed because the facts have not always matched up to the promises. He mainly regrets two things: (1) he did not detect much of an impetus towards the creation of an eventual European Monetary Fund, that would be crucial for the system's long term survival; (2) there hasn't been a unified stand toward the dollar. He also referred to the lack of real "institutions" on which monetary union could be based.

This should spur Europeans to think and act. What has been happening recently gives one a feeling of "déjà vu". The Community seems to be coming back to the positions that lead to the downfall of the big monetary

project in 1971. It is waiting for initiatives to come from outside. It is more concerned about expedients which would permit the international monetary "non-system" to flounder along keeping body and soul together rather than push its own system on ahead to the next logical political stages.

Em. G.