European Monetary Integration: Problems and Prospects

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On February 9, 1971 the Council of the European Economic Communities approved a modified version of the *Werner* Committee plan for monetary and economic union among the member states. The declared objective of the approved plan is to achieve monetary and economic union within one decade. The model proposed is that of a federal union characterized by a common currency, fully coordinated central-bank and national-budgetary policy, absence of internal barriers to the free flow of labor, capital, goods and services, a unified stance on monetary and economic issues under negotiation with countries not members of the union, adequate centralized power of decision to determine and implement policies in the above areas, and establishment of political machinery to guarantee democratic control over this centralized power of decision. The attractiveness of this model that it provides in principle a solution to a number of vexatious problems that trouble the member states of the E. E. C. while it simultaneously represents the logical fulfillment of the process of economic integration begun in 1958 and presently expressed in a customs union and common agricultural policy.

The purpose of this paper is to examine certain of the monetary and financial proposals and aims contained in the plan or that have emerged since its adoption in order to assess their implications for the economies of the participating states and, where appropriate, for the role of the E. E. C. in international monetary affairs. Section I briefly calls to mind the broader background of major goals and methods proposed in the plan for monetary and economic union with emphasis on some key issues that emerged in the discussions that led to its adoption and found expression in the plan. Against this broader perspective Section II analyzes four interrelated monetary or financial issues raised by the plan. These are (1) policy regarding the flexibility of exchange rates, (2) controls over international capital movements, (3) the creation of a European Reserve Fund, and (4) the harmonization of domestic monetary instruments and policies. Section III draws some general conclusions concerning the prospects of the plan for monetary and economic integration.

I.

The Council-approved plan for monetary and economic integration within the E. E. C. establishes certain agreed principles of procedure, calls for a variety of specific measures to be undertaken, and designates other issues for further study and consultation.

The major disagreement among the member states in the discussions preceding the plan's adoption arose over the question of timing of steps towards monetary union by reducing the bands within which intra-Community exchange parities may fluctuate in relation to the timing of effective mutual consultation concerning aggregate demand management by means of national budgetary and central banking procedures. This issue was compromised, through not permanently resolved, by acceptance of the principle that monetary steps and "harmonization" of economic policies in other areas should move ahead in synchronized fashion. Moreover, commitment to the narrowing of exchange parity spreads was undertaken on an experimental and hence reversible rather than more permanent basis. Further, a safeguard provision was included permitting the entire program of monetary measures including narrower bands and medium term financial aid to be suspended at the ed of five years from the beginning of the first phase should the E. E. C. Council, on the basis of a review by the Commission of both monetary and economic-coordination measures to be submitted before May 1, 1973, determine that the necessary degree of parallelism between the two types of measures had not been achieved.

An issue closely related to that of parallel timing in monetary measures and those of economic coordination is that of the degree of stability or flexibility in exchange rates within the Community and between the member states of the Community and the rest of the world, especially the United States. The plan approved by the Council commits the member states to the principle of fixed exchange rates internally and as regards the international monetary system. In the perspective of events that have shaken the international monetary system during 1971 there appears to be more general agreement within the Community than before on the desirability of greater rate flexibility and wider bands between exchange rates for Community currencies and the rest of the world. By contrast, the recent agreement of March 21, 1972 among member states to narrow the bands within which rates of exchange among Community currencies may move beginning April 24, 1972 appears to reaffirm the commitment to the principle of fixed rates within the Community contained in the Council-approved plan for monetary union. It should benoted, however, that when narrowed to the proposed width of 2.25 percent on April 24, 1972 the band for Community currencies will remain wider than the 1.50 percent band that prevailed in practice among Community currencies under the terms of the IMF agreement prior to the general abandonment of that agreement in 1971.

Among the principal issues noted for future study and action in the Council approved-plan are the following: (1) harmonization of the instruments of monetary policy, (2) harmonization of the structure and to some extent the level of taxes with particular reference to the value-added tax, excise duties, tax treatment of interest on fixed interest securities and dividends, company taxes, and the extension of tax exemptions granted to private persons crossing intra-community frontiers, (3) integration of financial markets and the progressive coordination of the policies of member states with respect to financial markets such as policies concerning bond and stock issues by non-residents in domestic capital markets, (4) policy toward the movement of capital to and from third countries outside the Community, (5) Community-level policy on structural and regional measures and the provision to the Community of appropriate means to implement such policy. Broadly speaking these are areas of policy for which the general logic of monetary and economic union indicates the need for adjustments in diverse practices among member states either to remove barriers to mobility of labor, capital, and entrepreneurship within the Community or to facilitate the coordination or implementation of economic policy in response to recommendations or dicisions taken at Community level. Two other unresolved issues are those of the role and degree of independence of the central banking function at the Community level and of the transfer of power of decision in economic matters to a Community organization together with provision for democratic control over economic decisions.

II.

None of the proposed steps towards monetary union contained in the E. E. C. plan adopted on February 9, 1971 has been implemented as for early April 1972 as this paper is being written. Bands around the "pivot" parities on which agreement was reached at the *Smithsonian* meeting of the Group of 10 in Washington on December 18, 1971 are wider than those of the prior IMF agreement both within the Community and outside. No visible progress has been made in monetary harmonization among the E. E. C. member states or on the details of the proposed European Reserve Fund. There is no agreement within the E. E. C. on methods for regulating international capital movements, although it appears to be generally accepted within the Community that some form or degree of regulation is essential. Techniques and criteria for coordination of budgetary policy remain ill-defined and command no general support within the Community. Longer term projects such as reform of financial markets and institutions, development of an integrated European capital market to replace the Eurocurrency and Eurobond markets, and tax reform have not advanced since adoption of the plan.

In recent weeks, however, Germany and France have agreed to resume progress towards implementation of the plan for monetary and economic union and the E. E. C. Council as a first step has approved the narrowing of bands for exchange rate variation among Community currencies to a width of 2.25 percent effective April 24, 1972. The central banks of the member states will cooperate to maintain effective exchange rates for current account transaction within these margins and have undertaken to intervene with Community currencies as well as dollars to produce this result. In a companion move the Council agreed also to the establishment of a high level committee made up of top civil servants from each member state to supervise the closer coordination of monetary and budgetary policies. These developments represent attempts to revive the plan for monetary and economic integration by taking some initial steps towards its implementation. To evaluate the problems and prospects raised by these and related developments we shall explore several areas in greater detail.

Exchange Rate Policy

A major goal stated in the plan for monetary union is the progressive narrowing of exchange margins among member states of the E. E. C. Significantly, this is the first tangible step announced for resumption of the process of monetary unification following the disturbances to exchange parities of 1971. The initial goal in this respect, scheduled for implementation on April 24, 1972, is stabilization of exchange margins within the Community so that maximum variations of effective spot rates for current account transactions between any pair of Community currencies will not exceed the potential variation between any Community currency and the dollar. This measure has a two-Fold purpose: to provide alternatives to the dollar as a stable asset-form for private and public exchange reserves, and to recover momentum toward the eventual goal of fixed parities within the Community.

One immediate implication of narrowing exchange margins within the Community is to restrict also the potential margin of variation for individual national rates of exchange relative to the dollar unless the value of individual E. E. C. national currencies should rise and fall in concert relative to the dollar. Diverse conditions affecting the balance of payments of individual countries make this a most unlikely result if left to the influence of market forces. The meaning is clear. A surplus country may find that the narrower intra-Community margin requires it to invervene to purchase foreign exchange at a lower market rate of exchange relative to the dollar and a deficit country at a higher rate relative to the dollar than is required by the terms of the Smithsonian agreement of the Group of Ten. This implies inflows or outflows of foreign exchange reserves in excess of those that need occur under the Smithsonian accord.

In so far as Community currencies replace the dollar as the intervention currency some central banks in the Community will accumulate reserve assets in other Community currencies rather than in dollars. A surplus country whose rate of exchange begins to penetrate the ceiling to the Community band may have to buy the currency of a deficit country whose exchange rate is at the floor of the band. Alternatively, the surplus country may lend its currency to the deficit country. The distribution among Community countries of reserve assets held in dollars will certainly be altered under this form of intervention as compared to exclusive reliance on the dollar as intervention currency. In particular, surplus countries will hold fewer dollars and deficit countries more dollars than when the dollar is the sole intervention currency.

The level of the entire Community band can be raised or lowered relative to the dollar by general revaluation or devaluation of Community currencies by a stipulated percentage relative to the dollar. This will not make the problem of divergent trends in balances of payments of member states any easier to deal with, since any correction of an excessive surplus for one country is likely to be offset by accentuation of the deficit being experienced by its partner whose currency is at the floor of the Community band. Instead of entering the exchange market to keep its own currency from rising the surplus country will need to acquire its partner's currency to keep its exchange value from falling.

If a deficit country has an adequate stock of owned reserves, it may be able to support its own exchange rate for some period of time without help from its E. E. C. partners. However, such independent self-support is not expected to suffice as is evidenced by the current availability of mutual credit through arrangements for short-term monetary aid and medium-term financial aid. The former is available unconditionally up to stipulated quotas for individual countries for a period of three month renewable for three month while the latter can be extended by a decision of the E. E. C. Council for a period of two to five years but is conditional upon economic plicy commitments negotiated between the recipient of aid and its partners. Even this latter form of medium term credit is not likely to prove adequate for a prolonged deficit which is one reason for the proposed sharing of reserves through a European Reserve Fund to be discussed below.

Regulation of Capital Movements

Closely related to the question of exchange rate flexibility and the width of bands internal and external to the Community is that of controls over international capital movements beween the Community and the rest of the world. Various proposal to this end have been made within the Community including exchange controls, use of two-tier foreign exchange markets, and various forms of market-oriented measures such as taxes, special deposits on foreign borrowings by corporations and the like. In practice, at the present time every E. E. C. country intervenes in some way to regulate international capital movements, and the trend toward increased intervention is evident. Approaches to the problem extend from virtually comprehensive administrative controls over capital movements within the framework of foreign exchange controls as in France, Italy and the Netherlands, to the use of a two-tier foreign exchange market in Belgium with a floating rate for capital transactions, and to the German system of market-oriented controls in the form of special reserve requirements on non-resident deposits, special cash deposits that apply to corporate borrowing abroad, and regulations governing interest payable to non-residents on deposits and on certain money-market paper sold to non-residents under repurchase agreements.

Exchange controls do not represent a satisfactory solution to the problem of regulating international capital flows because of their discriminatory and arbitrary effects which limit competitive market processes and reduce economic welfare. Moreover, application of exchange controls on an individual-country basis within the E. E. C. would be inconsistent with the avowed aim to integrate Community capital markets and with the process of monetary and economic integration generally. To apply a uniform set of exchange controls at the borders of the E. E. C. with no controls on internal movements of capital would be administratively complex and would pose major problems of policy regarding the character of the controls, priorities to be observed, and the like.

These considerations have motivated two alternative approaches to regulation of capital movements by Community countries: (1) the two-tier exchange market currently employed in Belgium and recently urged by the French as a general solution for the Community and (2) a set of measures to control inflows of short term capital recommended by the E. E. C. Coffission for adoption by each member country. These recommended measures include the fixing of regulations for investments on the money market and the remuneration of the deposits of non-residents, the regulation of the net external position of credit institutions, and special obligatory reserve requirements for non-residents deposits. Neither of these approaches to the regulation of capital movements is likely to prove satisfactory as a permanent solution for the Community.

A two-tier exchange market with a fixed rate for current account transactions and a freely-floating or partially controlled rate of capital account transactions has recently been analyzed by Vittorio *Barattieri* and Giorgio *Ragazzi* and somewhat earlier by J. Marcus *Fleming*[1]. The analysis by *Barattieri* and *Ragazzi* is confined to use of a two-tier market by an individual country. *Fleming* discusses briefly in addition

[1] Vittorio *Barattieri* and Giorgio *Ragazzi:* „An Analysis of the Two-Tier Foreign Exchange Market". Banca Nazionale del Lavoro, Quarterly Review, No. 99, Dec. 1971, pp. 354 - 372; J. Marcus *Fleming:* Essays in International Economics, Ch. 12, „Dual Exchange Rates for Current and Capital Transactions: A Theoretical Examination", pp. 295 - 325, Harvard University Press, Cambridge, Mass., 1971.

to the individual country case that of "discriminating regional systems". In the latter case *Fleming* assumes freedom of capital movements at par within the group but operation vis-a-vis the rest of the world of dual rate sstems designed to keep each country in overall payments balance.

The analysis of *Barattieri* and *Ragazzi* reaches conclusions favorable to the two-tier system as compared to widening bands or selective controls to reduce destabilizing capital movements. Their analysis concludes that variation in the exchange rate for capital account transactions is more effective than the alternative measures and less arbitrary. But adoption of this approach involving separately varying exchange rates for capital account transactions for individual countries would frustrate the declared E. E. C. objective to create an integrated, Community-wide capital market so as to increasing capital mobility inside the Community.

Fleming's case of a "discriminatory regional system" provides a partial solution to this problem. He analyzes a system in which each in-group country requires foreign exchange transactions to be classified into one of three categories: current account transactions, in-group capital account transactions, and rest-of-the-world capital account transactions. The advantage of the system is to permit in-group capital transfers at or near the current account parity while allowing each country to manipulate its rate of exchange for non-group capital account transactions in order to achieve overall payments balance.

In practice such a system if adopted by the E. E. C. would not prove to be a panacea. Extensive administrative controls would be required to prevent "leakages" form occurring among the three categories of external balances. Moreover, there is no assurance that the response of net flows of non-group capital transactions to exchange rate variation in that market would prove adequate to redress imbalances in the other two accounts. This difficulty might well increase with the passage of time as current account net flows altered in response to differential domestic price trends and other factors. Further, should current account imbalances be or become large enough to arouse speculation on changes in current account parities, the authorities might find it very difficult to offset speculative capital flows from within the group as well as from outside simply by means of varying the rate of exchange in the non-group capital account market.

When the analysis of the two-tier market is viewed in the context of the E. E. C. monetary and capital account control objecives we are led back to the need for substantial mutual credits of foreign exchange to support the twin E. E. C. aims of fixed current account parities and increased integration of capital markets within the Community. Any System that freezes exchange parities within the E. E. C. raises this need, especially one that seeks to provide for internal transfers of capital at fixed exchange rates.

The set of measures recommended by the E. E. C. Commission for adoption by individual members of the Community to regulate unwanted capital inflows provides a partial alternative to full exchange controls or the two-tier market approach. These measures are of two basic types. One is direct prohibition as in the case of regulations on the net foreign balance of financial institutions, of interest payable on the bank deposits of non-residents, and of loans contracted abroad by residents. The other type of measure seeks to alter the effective terms of choice in private financial markets by imposing reserve requirements against funds obtained from abroad. A system of this kind can be made reasonably effective against undesired short-term capital inflows for short periods of time. It is subject to the usual attrition in effectiveness through increasing evasion in the longer run and may require escalation of controls toward full exchange control should the perceived need for control persist.

These measures must be viewed as an ad hoc response to the special problem of massive inflows of dollars rather than as more basic tools geared to long run solution of balance of payments problems for Community members. The market-oriented measures, like special reserve or cash deposit requirements would be of limited effectiveness in controlling outflows of short-term capital as contrasted to inflows. Moreover, as applied by individual countries, these measures tend to decrease rather than increase the degree of integration of the Community-wide capital market which is antithetical to the longer run objective of the Community.

One fairly obvious point remains to be made with respect to any system of Community-wide controls over international capital movements that seeks to combine the external controls with freedom of capital movement internally. For the external controls to be effective they must be applied and enforced uniformly by every member state. Any breach in the dike anywhere will defeat the system and cause a reversion to the individual country controls that will in turn segment nationally the internal capital market.

European Monetary Cooperation Fund

The need under any system of internally fixed exchange parities for mutual aid in obtaining foreign exchange to meet persistent deficits has provided the incentive to develop a more comprehensive system for the management and sharing of foreign exchange reserves on a Community-wide basic. Various names have been used within the Community in referring to such arrangements including European Reserve Fund and European Monetary Cooperation Fund. The details of such a Fund have not been fully specified but may be presumed to be under study currently, and some proposal of this sort may be made public by June 1972. Nothing is to be gained by attempting to anticipate details for such a Fund in this paper. But it is useful to stress one or two implications for the participants in such a Fund should it be established.

The key issue in the establishment of the Fund for Monetary Cooperation is that of the basic upon which a surplus country will provide reserves to a deficit country through the Fund. The Fund as described in the *Werner* Committee Report is conceived as going beyond arrangements already available for short-term monetary aid and medium-term financial aid to achieve some form of joint management of shared or pooled reserves[2]. The Fund may come into existence as an accounting and clearing agent, as a channel for coordination of central bank foreign exchange activities, and as a source of medium term credit on terms similar or identical to those currently provided through arrangements for medium-term financial aid. The acid test of the Fund, however, and ultimately of the seriousness of member states regarding internally fixed exchange rates, is whether or not the Fund becomes a channel for merging reserve holdings of national central banks on the basis of some form of pooling or outright grants. Short of this a country experiencing a persistent overall payments deficit through adherence to the ommunity level and structure of exchange parities face growing foreign indebteness on
credit termsas the price of continued allegiance. Viewed from the perspec
credit terms as the price of continued allegiance. Viewed from the perspective of a surplus country the price is continued credit extension. On a shared or pooled reserve basis grants of foreign exchange replace credits with obvious implications for both grantor and recipient. In current nego-

[2] Council-Commission of the European Economic Communities, *Report to* the Council and the Commission on the Realization by Stages of Economic *and Monetary Union in the Community*, (*Werner* Report), Supplement to *Bulletin* 11 - 1970 of the European Communities, pp. 55 - 61.

tiations and forthcoming announcements concerning the establishment of the European Monetary Cooperation Fund this issue may be ignored or postponed. But ultimately it will be critical.

The persistence of flows of foreign exchange on a credit or grant basis from one E. E. C. country to another in support of the level and structure of Community exchange parities will depend on trends in domestic price levels in member states, on their budgetary and monetary policies, on anticipated rates of return on real capital and other well-known economic forces. This dependence, together with concern over the influence of E. E. C. partners on the success of domestic policies to stabilize aggregate demand prices and employment, provides the incentive for the emphasis accorded to coordination and harmonization of monetary and budgetary policies in the E. E. C. plan for monetary and economic union.

Monetary Harmonization

Terms like "harmonization", "coordination" and "integration" abound in discussions and reports within the E. E. C. dealing with monetary cooperation among E. E. C. countries. To date, however, the operational content of these terms has not been clearly defined save in the case of agreement to cooperate in narrowing the bands within which exchange rates among Community currencies may fluctuate. Even here the specific working details for implementing this agreement have not been made public and may remain to be discovered by a process of trial and error once the agreement goes into effect. But it is to another aspekt of monetary harmonization that we shall direct our attention in this section: specifically, to the problem of harmonizing the conduct of domestic monetary policies among Community members.

The basic questions in this area are: What it the meaning of "harmonization" and what is it that is to be harmonized? Close reading of the Commission memoranda, *Werner* Committee Report and Council-approved plan for monetary and economic union reveals an evolution from an early emphasis on harmonization or coordination of monetary and credit policies toward a later concern with harmonization of the instruments of monetary policy. Apparently, the more the various working committees sought to refine their ideas in this area the more they were inclined to think in terms of instruments rather than policies. This shift in emphasis is understandable. The concept of harmonizing instruments is much simpler to interpret than that of harmonizing policies, especially if the harmonization of instruments is understood to mean that the monetary authorities in each country should possess identical technical means of affecting monetary and credit phenomena. Moreover, from the perspective of ultimate monetary union, a convergence of national monetary and credit techniques towards a single, master set to apply uniformly in the accomplished union, appears desirable and even necessary.

The difficult with this approach is that it substitutes administrative for economic reasoning and ignores both the crucial problems of transition and that of stating the economic criteria by which use of the instruments is to be guided. To illustrate the nature of the transition problems imagine that all E. E. C. members agree to provide their monetary authorities with some established list of instruments. Likely candidates for a minimum list are rediscount policy, required reserves in the form of deposits at the central bank, and open market purchases and sales of securities to alter the liquidity of credit institutions. Under current circumstances the degree of reliance on particular instruments from this list in different countries varies greatly. These differences in practice arise from differences in relative emphasis on national policy objectives, differences in the availability and use of other policy instruments such as credit ceilings, interest rate controls, and earning asset reserves, differences in organization and relative importance of financial institutions and of money and capital markets, and differences in the extent of foreign exchange controls. Individual countries cannot commit their monetary authorities to substantial changes in techniques of monetary and credit policies without profound implications for policies in these other areas and quite possibly for their abilities to achieve major goals of national economic policy. For example, in some of the E. E. C. countries, confining the monetary authorities to use of these classical techniques of monetary policy would imply giving up attempts to allocate credit and capital flows to high priority investment projects or, alternatively, would imply the need to impose major new tasks upon budgetary processes. Foregoing the use of credit ceilings and interest rate controls might require an extension of exchange controls or for regulations on the net foreign positions of credit institutions. The transition from one system of instruments to another poses many problems of his sort.

If, on the other hand, different countries combine the use of a stipulated list of common monetary instruments with diverse assortments of complementary instruments and controls, the meaning of harmonization of instruments becomes even more ambiguous. A change in the basic discount rate of a central bank has different consequences depending on such matters as the availability of other channels for discount, the extent of customary indebtedness of credit institutions at the central bank, the ability of banks to repatriate reserves held abroad in the form of liquid earing assets, whether the government budget is in surplus or deficit, whether or not the authorities follow a price support policy for government securities and so on. Indeed, the problem is even more complex than this when viewed from the perspective of economic analysis. Even for two economies that were identical in all the policy and organizational respects just listed as relevant, the significance of specific economic policy measures for economic performance could easily differ depending upon a large list of economic factors such as quality and composition of the labor force, characteristics of the existing capital stock, entrepreneurial skills, saving habits and the like.

These problems concerning the meaning and relevance of "harmonization" as applied to the instruments of monetary policy suggest that it is the effects rather than the techniques of policy that need to be harmonized. The *Werner* Committee Report recommends obligatory consultations within the Committe of Governors of the Central Banks and the establishment for each country of guidelines "... principally as regards the level of interest rates, the evolution of bank liquidity and the granting of credit to the private and public sectors"[3]. The Commission Memorandum prepared for the Council subsequent to the *Werner* Report speaks of "... strengthening coordination of Member States' monetary policies", and views the Monetary Committee and the Committee of Governors of the Central Banks as the appropriate forums for working out such guidelines. The Council-approved plan also asserts that "monetary and credit policies should be closely coordinated".

None of these three official documents provides explicit criteria for the coordination of monetary and credit policy among member states. As noted, the *Werner* Report recommends establishing guidelines for the level of interest rates, the evolution of bank liquidity, and the granting of credit to the private and public sectors. But these phenomena are not ends in themselves so the ultimate criteria must lie else-

[3] Council-Commission of the European Communities, *Report to the Council and Commission on the Realization by Stages of Economic and Monetary Union in the Community*, Luxembourg, Ocotber 8, 1970, p. 21.

where. While these are never explicitly stated with reference to monetary and credit policy per se, it seems reasonable to seek them among the basic purpose to be served by monetary and economic union. Likely candidates are the coordination of price-level movements among member states and minimization of destabilizing short term capital movements among member states for the contribution these could make respectively to exchange rate stability and domestic stabilization efforts. Here there arises the familiar dilemma that these two criteria may offer opposing counsels to a country's monetary authorities. There is the further complication that forces impinging on member states' balance of payments from outside the Community may produce disparate effects in different member states requiring the choice of money and credit measures appropriate to cope with these disturbances from outside but destabilizing within the Community.

These remarks are perhaps sufficient to establish certain conclusions with respect to the area of monetary and credit policies in the E. E. C. plan for monetary and economic union. First, harmonization of monetary and credit instruments is of very little use of itself in accomplishing the Community's basic economic objectives and may create far more difficulties than it resolves. Second, the criteria for coordinating monetary and credit policies to mutual advantage are complex, may involve familiar dilemmas of choic among conflicting aims, and differ from those facing national monetary authorities in nonmember states primarily by requiring more explicit evaluation of effects on other (partner) countries in so far as this commitment is seriously undertaken. Significant progress in the area of monetary cooperation beyond that normally practiced by sovereign nations promises to be very difficult.

III.

We have examined four interrelated problems involved in monetary integration within the European Economic Community. In each area the difficulties to be overcome in achieving declared objectives are substantial. Reduction of fluctuations among effective exchange rates between Community currencies implies an added constraint on techniques of adjustment by individual countries in E. E. C. to persistent surpluses of deficits in their balance of payments. So long as balance of payments of the individual countries are subject to diverse influences and trends, the constraint will sharpen the difficult choices economic authorities must make in coping with imbalance. Maintenance of a fixed structure of exchange parities within the E. E. C., even with allowance for some variation of market rates around parities, will require expanded facilities for foreign exchange credits within the Community. This in turn implies a redistribution of holdings of oreign exchange reserves other than Community currencies among the member states with surplus countries experiencing a decrease and deficit countries an increase in the share of their reserves held in dollars, gold, and claims against the International Monetary Fund. A European Monetary Cooperation Fund has been proposed as a channel for pooling reserves and subjecting them to joint management by agreement among the central banks of Community members. Some such arrangement is essential if the Community is to achieve full monetary integration in the future. The mutual concessions required to reach agrrement on sharing reserves on more than a token basis involve central and highly sensitive areas of national economic sovereignty including national monetary and budgetary policies for the influence these have on trends in domestic aggregate demand and price and interest rate levels. Whether the perceived mutual benefits of monetary integration within the Community will be judged sufficient to overcome reservations by national governments and various economic interest groups concerning limitations on national economic sovereignty in these sensitive policy areas is questionable. A difficult related problem is that of funding the sterling claims of other countries against the United Kingdom as this country enters into full membership in the E. E. C.

Control over capital movements between Community members and other countries has been proposed as an alternative to flexible exchange rates to regulate such flows and resulting disturbances to balance of payments and domestic economic equilibria. No system of regulation that applies uniformly to the entire Community can remove the dilemma of reconciling diverse interests among individual members. A discriminating regional system of dual exchange rates that combines in-group fixed rates for current and capital account transactions with a variable rate for non-group capital transactions is capable in principle of combining freedom of internal capital movements with exchange rate adjustability for external balance for individual countries. In practice, however, the exchange rate elasticity of net capital movements between individual Community members and the rest of the world might be low enough to require very large movements in the exchange rate for non-group capital transactions to generate sufficient volume through this channel to achieve overall external balance for individual countries. In the case of a member whose external balance with other members was in persistent deficit, the credibility of these efforts to maintain the fixed current account rate might even come into question so that maintenance of the fixed parity for current and in-group capital account transactions would depend upon sharing of reserves within the Community.

Finally, the Community's concern with the harmonization of the instruments of monetary policy appears to be misdirected, since it is the effects of monetary policy that must be coordinated to contribute toward the twin objectives of economic stabilization and external balance within the Community. Moreover, the familiar dilemma of choosing between internal and external objectives for monetary policy when these are in conflict will continue to confront national monetary authorities. Only in the measure that a sharing of reserves within the Community provides generous assistance to individual deficit countries may this dilemma be partially eased.

Our attention has been deliberately confined to problems most directly and immediately related to monetary integration. A host of additional problems, some of them quite closely related to monetary integration, must be resolved by the members of the Community in any serious attempt to achieve economic as well as monetary integration. The mutual adjustments inescapably posed by the requirements of monetary and economic union raise enormously complex problems in the areas of budgetary policy, capital market controls, the structure and regulation of financial institutions and markets, tax policy, social policy and regional policy. The adjustments required would affect many established practices, from of economic organization, business and governmental procedures, and vested economic interests. How the governments of member states and their internal constituencies will respond as these difficulties are more clearly perceived is a matter of conjecture. In the formation of any coalition there must be a balancing of prospective advantages and disadvantages by the participants.

In view of the problems explored in this report and those suggested by the additional areas mentioned above, it is our opinion that the E. E. C. plan for monetary and economic union will not be implemented on anything like its announced scale or timetable. With respect to monetary integration it seems likely that efforts to coordinate domestic monetary policies will continue to be limited to discussion and the exchange of information. The decision to narrow the band within which exchange rates Community currencies may move effective April 24, 1972 is likely to remain in effect for a period of relatively short duration measured in months rather than years. If launched the European Monetray Cooperation Fund will stress credit facilities rather than reserve pooling and will be largely a token effort. Foreign exchange controls will be continued and intensified in relations to capital movements and will be applied on a national rather than a Community basis. In short, significant progress in monetary integration within the Community appears most unlikely.

Zusammenfassung

Europäische monetäre Integration: Probleme und Tendenzen

Der Ministerrat der EWG stimmte am 9. Februar 1972 einer modifizierten Version des *Werner*-Plans für eine Europäische Währungs- und Wirtschaftsunion zu. Das Ziel des Plans ist, in den nächsten zehn Jahren eine Art bundesstaatlicher Ordnung mit einheitlicher Währung, einem voll koordinierten Zentralbanksystem und einer weitgehenden Abstimmung der nationalen Haushaltspolitik ohne innere Schranken für Arbeit, Kapital, Güter und Dienstleistungen zu schaffen. Die Untersuchung beschäftigt sich vor allem mit den monetären und finanzpolitischen Vorschlägen und Zielen sowie mit der Rolle der EWG in internationalen Währungsfragen.

Eine zentrale Frage ist die zeitliche Abstimmung zwischen währungspolitischen und finanz- bzw. notenbankpolitischen Maßnahmen. Der ausgehandelte Kompromiß sieht eine Synchronisation aller dieser Maßnahmen vor. Als erster Schritt wurde eine Verringerung der Bandbreiten beschlossen, allerdings mit der Möglichkeit, das Experiment zu beenden, wenn nach fünf Jahren die notwendige Parallelität zwischen monetären und wirtschaftspolitischen Maßnahmen nicht erreicht wurde. Eng hiermit verbunden ist die Frage nach dem Grad der Stabilität oder Flexibilität der Wechselkurse innerhalb der EWG und der Gemeinschaft im Verhältnis zum „Rest der Welt“. Grundsätzlich hat man sich auf feste Wechselkurse geeinigt; in der Praxis bedeutet jedoch die Verringerung der Bandbreiten innerhalb der EWG auf 2,25 % eine Ausweitung gegenüber der Vergangenheit.

Die Ansteuerung fester Wechselkurse innerhalb der Gemeinschaft bedeutet, daß die beteiligten Notenbanken auch in Währungen der Mitgliedsländer intervenieren müssen. Eines der Ziele dieser Politik ist es, im Halten von Gemeinschaftswährungen eine Alternative zur Reservehaltung in Dollar zu schaffen. Je nach der Wechselkursentwicklung des Dollars kann es hierbei erfor-

derlich werden, das Interventionsband zu verschieben. Ungelöst ist die Frage, was bei länger anhaltenden Zahlungsbilanzdefiziten eines Mitgliedslandes geschehen soll. Die vorgesehene kurz- und mittelfristige Hilfestellung innerhalb der Gemeinschaft dürfte dann nicht ausreichen.

Ein bislang ebenfalls noch ungelöstes Problem ist die Regulierung der Kapitalbewegungen innerhalb der EWG und mit dritten Ländern. Hier sind verschiedene Wege vorgeschlagen worden: Neben direkten Devisenkontrollen vor allem ein gespaltener Devisenmarkt und verschiedene Arten von marktorientierten Maßnahmen, wie Steuern, Mindestreserven auf Kredite aus dem Ausland u. ä. Devisenkontrollen stellen keine befriedigende Lösung des Problems dar, weil sie den Wettbewerb einschränken und den Wohlstand vermindern. Theoretische Untersuchungen über die Auswirkungen gespaltener Devisenmärkte für laufende Transaktionen einerseits und Kapitaltransaktionen andererseits haben gezeigt, daß sie den geringsten Grad an Verzerrungen und Willkür beinhalten würden. Als Dauereinrichtung würden sie jedoch dem Ziel eines einheitlichen Kapitalmarktes innerhalb der EWG widersprechen. Das Gleiche gilt auf lange Sicht für alle Formen der Kapitalverkehrskontrollen. Bei rigoroser Anwendung würden sie schließlich zur Devisenzwangswirtschaft führen. Im übrigen müßten die Kontrollen in allen Ländern der EWG gleich scharf gehandhabt werden. Jeder „Deichbruch“ würde das ganze System zusammenbrechen lassen.

Der Ausweg aus diesem Dilemma könnte in der Schaffung eines Europäischen Währungsausgleichsfonds liegen. Wenn auch noch nicht sicher ist, welche Form er annehmen könnte, so ist doch vorauszusehen, daß er sowohl für Defizit- wie für Überschußländer ernste Probleme aufwerfen würde. Auf die Dauer könnte er nur funktionieren, wenn wesentliche Unterschiede in der Entwicklung des Preisniveaus, in der Finanz- und Kreditpolitik und in der Produktivitätsentwicklung vermieden werden. Dies verstärkt die Bedeutung einer Koordination und Harmonisierung der währungs- und finanzpolitischen Maßnahmen in der EWG.

Allerdings ist bislang noch nicht klar, was unter Harmonisierung der Währungspolitik zu verstehen ist, mit Ausnahme der Verringerung der Bandbreiten. Wichtiger wäre jedoch eine Harmonisierung der geldpolitischen Maßnahmen in den einzelnen Mitgliedsländern. Dabei wären vor allem die geldpolitischen Instrumente zu harmonisieren. Dies genügt jedoch nicht, weil es nicht zuletzt auf die Ziele der Geldpolitik ankommt, ob und welche Instrumente eingesetzt werden können. Schließlich sind auch die Rückwirkungen der Geldpolitik und ihrer Instrumente auf andere Erfordernisse der nationalen Politik wie auf die Partnerländer zu berücksichtigen. Angesichts aller dieser Schwierigkeiten ist die Schaffung einer wirklich engen Währungsgemeinschaft innerhalb der EWG sehr unwahrscheinlich.

Résumé

Intégration monétaire européenne: problèmes et tendances

Le 9 février 1972, le Conseil de Ministres des Communautés adoptait une version remaniée du plan *Werner* d'une union économique et monétaire euro-
version remaniée du plan Werner d'une union économique et monétaire euro-
péenne. L'objectif du plan consiste à créer au cours des dix prochaines années une sorte d'organisation d'Etat fédéral avec une monnaie unique, un système de banques centrales intégralement coordonné et une large coordination des politiques budgétaires nationales sans le moindre obstacle en matière d'activités, de capital, de biens et de services. La présente étude s'intéresse plus particulièrement aux propositions et aux objectifs de politique monétaire et financière ainsi qu'au rôle de la CEE dans les questions monétaires internationales.

La coordination dans le temps des mesures de politique monétaire et de celles de politique financière ou de la banque d'émission constitue une question primordiale. Le compromis négocié prévoit une synchronisation de toutes ces mesures. Comme première action, l'on a décidé de rétrécir les marges de fluctuation des monnaies, avec toutefois la possibilité de mettre fin à l'expérience si après cinq ans, l'on n'est pas parvenu à atteindre l'indispensable parallélisme entre les mesures monétaires et économiques.

En étroit rapport avec cette première action se situe la question du degré de stabilité ou de flexibilité des taux de change au sein de la CEE et entre la Communauté et le reste de l'univers. Sur le plan des principes, l'on s'est prononcé en faveur de la fixité des taux de change, mais dans la pratique, le rétrécissement des marges de fluctuation à 2,25 % à l'intérieur de la CEE n'en constitue pas moins un élargissement par rapport à la situation antérieure.

La recherche de parités fixes au sein de la Communauté signifie que les banques centrales participantes doivent également intervenir en monnaies des Etats membres. L'un des buts de cette politique consiste à créer par la conservation de monnaies communautaires une alternative à la constitution de réserves en dollars. En fonction de l'évolution du taux de change du dollar, il peut devenir nécessaire de déplacer la marge d'intervention. L'on a laissé sans réponse la question de savoir ce qui se passerait si un Etat membre se trouvait devant des déficits de sa balance des paiements pendant une longue durée. L'aide financière à court et à moyen terme instituée dans la Communauté ne suffirait pas à résoudre ce problème.

Un autre problème qui demeure non résolu depuis longtemps est la régulation des mouvements de capitaux au sein de la CEE et avec les pays tiers. Diverses solutions avaient été proposées: outre les contrôles directs des devises, on proposait surtout un double marché des changes et plusieurs sortes de mesures d'orientation du marché, telles que l'imposition, des réserves obligatoires sur les crédits en provenance de l'étranger, etc.... Le contrôle des

changes n'apporte pas une solution satisfaisante au problème, car il réduit la concurrence et diminue le bien-être général. L'examen théorique des effets du double marché des changes, l'un pour les transactions courantes et l'autre pour les transactions en capitaux, a demontré qu'il apportait le moins de restrictions et d'arbitraire. Comme institution permanente, le double marché des changes s'opposerait toutefois à l'objectif communautaire d'un marché unifié des capitaux. L'argument peut d'ailleurs être opposé à long terme à toute forme de contrôle de la circulation des capitaux. Une application rigoureuse doit mener infailliblement à une économie à devises contrôlées. Au demeurant, ces contrôles devraient avoir la même regueur dans tous les Etats de la CEE. Toute « rupture de digue » détruirait le système entier.

Pour sortir de ce dilemme, l'on pourrait suggérer la création d'un fonds européen de péréquation. Si l'on ne sait pas encore exactement quelle forme il pourrait revêtir, l'on peut déjà avancer qu'il suscitera des problèmes sérieux tant aux pays de déficits qu'aux pays d'excédents. A la longue, son fonctionnement ne serait garanti que si l'on pouvait éliminer les principaux écarts dans l'évolution du niveau des prix, dans la politique financière et du crédit, et dans le développement de la productivité. Ce qui précède ne fait que renforcer l'intérêt d'une coordination et d'une harmonisation des politiques monétaires et financières dans la CEE.

Mais l'on ignore encore ce qu'il faut entendre par harmonisation des politiques monétaires, à l'exception du rétrécissement des marges de fluctuation. Il serait néanmoins plus important d'harmoniser les mesures de politique monétaire dans tous les Etats membres. Et l'on aurait à débuter par les instruments de la politique monétaire, encore que cela ne suffise pas, puisque le choix des instruments dépend avant tout des objectifs. Enfin, il faut prendre aussi en considération les répercussions de la politique monétaire et de ses instruments sur d'autres exigences de la politique nationale et sur les pays partenaires. Vu toutes les difficultés mentionnées, l'on tiendra pour très improbable la création d'une communauté monétaire véritablement étroite.