

## PROSPECTS FOR MONETARY INTEGRATION IN THE EEC

Address delivered by EEC Vice-President Wilhelm Haferkamp  
before the German Bankers' Convention, 12 March 1974 in Bonn

### 1. INTRODUCTION

It is not easy under the present circumstances to talk about "Prospects for monetary integration in the European Community". Public opinion is agreed that Europe is in a sorry state at present.

Today the European Community stands at a crossroads. The events of the last few months and the behaviour of the Governments of the Member States have disappointed many hopes. In retrospect, one wonders whether all those who made solemn declarations about economic and political union were prepared to draw all the consequences therefrom. Indeed, it seems doubtful that the Governments of the member countries have the will and the courage to progress further on the road towards European unity and in particular towards monetary union.

In my opinion, there can be no doubt about the ultimate aim of achieving monetary union and its necessity, although the appropriateness of the methods and techniques used up to now, can be questioned. Today European unity in the monetary field is important and urgent as never before, but if we are to succeed, we must reconsider the formulas and procedures and adjust them to the changed situation.

In my address today I would like to outline some ideas and proposals before this distinguished audience of experts. Perhaps in the past we have too often evolved theories on the drawing board. Perhaps we have had too few discussions with bankers and those concerned with practical affairs.

But we must ask ourselves first of all: were the means and objectives of monetary integration in the European Community wrong? What were the causes of the setbacks and failures?

## 2. AIMS OF ECONOMIC AND MONETARY UNION

2.1 Any realistic analysis of the situation must begin by examining the objectives which the Member States fixed at the beginning of 1971, and which they have continually reaffirmed.

Firstly: the Community is to progress by stages towards Economic and Monetary Union, and this should be completed before the end of 1980.

Secondly: progress in the fields of economic and monetary policy must proceed in a parallel manner.

Thirdly: the Community's organs must acquire the decision-making authority requisite to the administration of an Economic and Monetary Union.

2.2 The final objective of Economic and Monetary Union was firmly and clearly defined in the Council Decision of 21 March 1971.

The aim is to establish an integrated economy among all member countries in which there is free movement of goods, services, capital and persons, and in which they are subject to the same regulations. To achieve this aim, an independent monetary area in which there is a common central banking system must emerge within the framework of the international monetary system.

The purpose of monetary cooperation is to eliminate parity changes and to narrow the width of the bands within which the value of Community currencies can fluctuate. In this way, the conditions for the introduction of a common European currency would be fulfilled.

## 3. INITIAL EXPERIENCES IN MONETARY INTEGRATION

3.1 The final objective of monetary integration is undisputed, and, moreover, in spite of all the difficulties some progress towards this goal has been achieved.

In 1972 the Member States agreed on the creation of a European monetary system, the so-called "snake in the tunnel", which made an important contribution to European monetary stability. In this way, the first steps

were taken towards the creation of an independent European monetary personality. This strange animal, the "European snake", functioned by means of a network of agreements, multilateral interventions in Community currencies and dollars, short-term credits and rules for the periodic settling of debts between central banks.

In March 1973 the "European snake" was able to function as an effective implement of defence against the influx of dollars and against inflation, as Community currencies floated against outside currencies. Within the Community this system assured relatively stable exchange rates, as fluctuations in the spot rate of Community currencies was not allowed to exceed 2.25%. In addition, in the context of this European monetary "bloc" some early successes in harmonizing national money and credit policies, and particularly interest-rate policy, were achieved.

3.2 However, no progress was made towards liberalizing capital movements or harmonizing the capital market policy of the Member States. On the contrary, during the first stage, controls on capital movement within the Community were increased. It was only recently in the aftermath of the oil crisis that some countries have moved to loosen controls on the importation of capital.

3.3 Finally, present plans for the achievement of Economic and Monetary Union envisage consultation and endeavours to coordinate as the most important means of harmonizing economic and monetary policy in the Member States.

But reality has proven to be quite different.

Consultations which were to be obligatory, above all in connection with adjustments in exchange rates, seldom took place before the actual decision was made. In many cases, the other partners could only take note of what a Member Government had already decided.

#### 4. CURRENT PROSPECTS

4.1 The creation of a monetary area composed of the nine Member States, together with Norway and Sweden, and possibly including Austria and Switzerland, would have meant that 70 to 75% of the foreign trade of these countries would have taken place at relatively stable exchange rates. This European monetary area has not come into being.

Today we are faced with the fact that instead of moving towards this monetary grouping, the present monetary situation is characterized by a tendency to disintegrate into national units. Today only five Member States - Belgium, the Netherlands, Luxembourg, Denmark and the Federal Republic - and two non-EEC countries, Norway and Sweden, are still participating in the EC bloc floating.

4.2 The intensification of monetary integration as part of the Economic and Monetary Union was planned for 1974. With the transition to the second stage the tasks and resources of the European Fund for Monetary Cooperation, founded in 1973, were to be increased. The system of short-term credits was to be transformed and expanded and the first steps towards the pooling of Community monetary reserves taken.

In addition to this, real progress was to have been made in coordinating external monetary policy and domestic money and credit policies, as well as in other fields of economic policy. It was realized that exchange rate adjustments could not be excluded in the transitional period, but they were to occur only after consultations among the participants. Finally, the Community was to act as a unit in its relations with the outside world and to be represented by a single speaker in international negotiations and bodies.

4.3 In negotiating the proposals for the second stage of Economic and Monetary Union it became clear that compulsory consultation and coordination procedures had no chance of being accepted. The majority of the Governments refused to limit the scope of national decision-making.

Because of the lack of agreement on the size of the regional fund and the criteria to guide its use, the formal transition to the second stage of Economic and Monetary Union has not yet been approved. Substantive decisions, paving the way for the second stage, were nevertheless approved by the Council of Ministers on 18 February of this year.

If all the Commission's proposals, including that on the Monetary Fund, had been approved by the end of last year, this would certainly have made a useful contribution towards progress in monetary integration. Today there are doubts whether the Member States are really prepared to harmonize their instruments of economic policy and ensure that there is a greater degree of convergence of economic policies in the Community. The Council again postponed its decision on the proposals for Community pooling of currency reserves: it limited itself to requesting a report from the Committee of Central Bank Governors and the Monetary Committee before the end of March of this year on which it intends to take action before the end of June 1974.

4.4 The oil crisis and its financial and economic repercussions on the economies of the Member States have once again put the Community to the test. Up to now it has not met this challenge. Different degrees of dependency and repercussions on prices, as well as varying balance of payments and employment situations, have further strengthened the tendency of the Member States to follow a policy of "every man for himself" and "sauve qui peut".

As a result of the increase in the price of oil the balance of payments of EEC countries as a whole in 1974 will deteriorate by approximately fifteen to twenty billion dollars. The countries concerned have attempted to deal with this situation in different ways: some have tried to raise billions on the international capital market, to increase their swap agreements with the US reserve system, to make use of IMF credits, or to let their exchange rates float downwards. Others have liberalized capital import controls and pointed to their comfortable cushion of large foreign exchange reserves. Instead of working out joint strategies to overcome the crisis, everyone is looking for national advantage. Instead of acting together, everyone is betting on national economic and monetary policies.

5. THE CAUSES FOR THE DEADLOCK AND SETBACKS IN MONETARY INTEGRATION

5.1 The picture of the present situation and prospects for European integration is a gloomy one. The possibility that monetary disintegration will continue cannot be excluded.

It is therefore even more important to ask the question: Has the road towards Economic and Monetary Union begun in 1971 become impassable? Were those the wrong concepts and methods for achieving Economic and Monetary Union? What caused things to go astray?

5.2 The first reason has become clear today is that we began monetary integration in Europe too late. As long as the Bretton Woods system continued to function, monetary unity was certainly important but only a long-term aim of integration efforts.

First of all we wanted to harmonize the instruments and objectives of economic policy and initial structural conditions; first of all the policies of the States and of both sides of industry were to be harmonized.

The creation of an independent European monetary system and a common currency would then have been the crowning accomplishment in achieving European economic unification.

Now we know that we have lost a lot of time. I hope not irretrievably!

Today the problems now present themselves differently. We now need Economic and Monetary Union to call a halt to the continual destruction of the international monetary system and to serve as a rallying point for forces pushing for the creation of a new monetary order.

5.3 The second reason for the unsatisfactory functioning of the European monetary arrangements as they presently exist is that there has been insufficient coordination of economic objectives and instruments.

So long as there are differences in economic priorities, so long as one country regards economic growth as of paramount importance and another sees



price stability as crucial and so long as cost and price trends differ there will be disequilibria in the balance of payments which will make exchange rate adjustments necessary. If real progress towards Economic and Monetary Union is to be achieved, then the objectives of economic policy must be made compatible, the instruments at the disposal of the Member countries must be harmonized, and finally the objectives fixed by common accord must be implemented and the Member States must jointly accept responsibility for them.

To achieve greater convergence of economic trends and of policy goals and instruments also necessitates harmonization of the different basic social and regional structures. This means that those countries having a sound economic structure must aid the weaker partners and regions, in other words that a European adjustment mechanism extending to agricultural, social and regional policy must be created. A condition of providing aid for others is however the right of all to participate in formulating and implementing policy.

5.4 The third reason for the failures in economic and monetary integration is to be found in the lack of decision-making structures at the Community level. Consultative bodies and non-binding procedures are insufficient to impose joint action. The harmonization of the central objectives of short-term economic stabilization and employment policy in the member countries will not be accomplished by consultation. Rather, it is necessary to transfer national powers step by step to Community organs and in this way to put the objectives of economic, monetary and foreign policy fixed by the Community into practice. The challenges of the present energy crisis show painfully how little the Community is presently capable of asserting its political and economic strength.

But it is precisely at this point, when it comes to renouncing national sovereignty, that all Governments shrink back and refuse to admit to themselves that they have already lost part of their national autonomy as a result of the high degree of economic interdependence. Even without the energy crisis at the end of 1973 it would have been impossible to overlook the fact that for more than a year the Council of Ministers had been putting off virtually all important decisions. The real reason for this situation

is fear of the politico-institutional consequences which an effective policy at Community level would entail. The gap between the declarations of intent by politicians and the actual progress achieved is growing ever wider, and the credibility of the integration aims continually smaller.

## 6. NEW WAYS TO ACHIEVE MONETARY UNION

6.1 It must be emphasized here once again that we cannot abandon the goal of Economic and Monetary Union, even if we must find new methods to achieve this. A common market requires a common and stable basis for calculating the costs of trade, and planning production and investment. Without this, there is a continual danger of a retrograde development and disintegration.

The Common Market is only viable in the long run if it proceeds to develop further into an economic and monetary union. Otherwise there is a danger that it would regress into a free trade area. The dismantling of the Common Market could well take place faster than one might imagine today and under these circumstances we would no longer need to concern ourselves with European integration.

We are therefore faced with the question of how we now intend to achieve this final objective of Economic and Monetary Union.

6.2 The European Community plays a decisive role in the world economy. It must therefore assume a corresponding responsibility for the orderly functioning of the world's economy, a duty which will be all the more crucial if the international economic system threatens to disintegrate. We have been able to put this off for a long time because the Bretton Woods agreement functioned tolerably well, but today swift action towards monetary cooperation is imperative.

The Commission must give priority to progressing towards economic and monetary union. That may sound Utopian, but in reality it is the alternative Utopian: that is, in other words, to wait until the "20" or "30" have agreed on a new world monetary system. If we wait any longer we are in danger of gambling away the results of European integration, the unification of the markets of the Member States.



6.3 In my opinion the Community must realize three things:

Firstly: with the disappearance of the worldwide monetary order we in the Community need a new method of integration. Up to now we have worked towards the integration of markets, sectors and regions. Now we need in addition to these endeavours a new agent of integration in the form of monetary unification.

Secondly: monetary integration has -- contrary to appearances -- a good chance of success, if it becomes less committed to finding ideal institutional and procedural solutions than previously: Plans for Economic and Monetary Union have up to now been largely conceived on the theoretical level, with little attention to practical realities.

These plans lacked sufficient links with the market, banks and entrepreneurs which already operate on a European scale extending across national borders. The present dangerous situation requires that Central Banks and the major commercial banks must coordinate their activities on a European level more than hitherto. Theoretically conceived plans and timetables must be replaced by a permanent coordination of behaviour -- a European monetary dialogue -- with the aim of achieving a common monetary policy towards the rest of the world.

Thirdly: structural and regional policy -- which have already been mentioned -- must also get away from idealistic theoretical models. We need a liberalized European capital market to even out differences in productivity and to correct structural problems. The planned European Regional Fund would be hopelessly overburdened if it were supposed to achieve this by itself. Indeed, one of the essential reasons for the epic struggle of politicians may also be found in this misconception of the Fund's tasks. Our aim should rather be to mobilize European capital markets to meet this challenge; to end the days of Europe being merely a centre for the distribution of foreign capital.

6.4 Above all the member countries must now face together the pressing danger of a further disintegration of the international monetary system. In view of the uncertainties in the monetary situation and the imminent changes in balance of payments conditions in the industrial countries, it would not be a disaster if we had to live for a longer period with floating exchange

rates. It would be a disaster only if our exchange rates were to increasingly fluctuate in response to the investment preferences of the oil producers. We must therefore establish some order among these flexible exchange rates by means of a mutually coordinated policy. It will take some time before this happens within the framework of international monetary reform. In the meantime, close monetary cooperation between the EEC and the most important industrial States, above all with the USA, is essential. This kind of concerted effort, which would also be directed towards cooperation with the oil-producing countries, could make an important and stabilizing contribution to international monetary relations. And that would be in everyone's interest.

A glance at events in the monetary field in 1973 show how necessary this is. Since May 1973 for example the value of the dollar in terms of the currencies of the European float has fluctuated by more than 20%, only to return at present to its level of March of last year. This instability was neither in the interests of the USA nor of other industrial States, nor of countries producing raw materials. The consequences of the rise in oil prices and continuing speculation in gold lead one to fear that this monetary instability will continue. For this reason, it is vital that the exchange rates between important trading partners should no longer be subject to arbitrary changes and exaggerated movements. This necessitates a more comprehensive system of rules and agreements than before.

Cooperation between the EEC and the USA, as well as any other interested party, in the field of monetary affairs, could ensure a minimum of international monetary order and minimize the risk of a world-wide recession as a result of the cumulative effects of "beggars-my-neighbour" policies. Such a contribution to stability would also make it easier for the countries floating individually to maintain a sensible exchange rate. The experiences of 1973 pointed to the fact that undisciplined floating has tended to increase domestic inflationary tendencies and to promote speculation in raw materials.

## 7. Conclusions

It would be wrong to prophesy the collapse and disintegration of the European Community. But the member countries must not only combat the continuing weakening of the Community; they must also come to regard the Community as one of the last pillars which must not be allowed to collapse, if they are to continue to enjoy a minimum of monetary stability. Progress towards the realization of Economic and Monetary Union is, however, also a positive contribution towards the re-establishment of orderly monetary and commercial relations in the world.

A Community which is economically so very dependent on the rest of the world must necessarily have a fundamental interest in a stable world economic system.

Setbacks with domestic economies too or even a standstill on the road towards monetary integration in the Community would bring dangers and risks for all member countries. There is no alternative to the economic and monetary unification of Europe. Disintegration and the retreat into national solutions would have economic, social and political costs which no Member State could afford to pay. There is therefore only the road forwards towards an economic and monetary unity in Europe.

The Governments of the member countries do not have much more time in which to meet this challenge. The political and economic forces in the world are in the process of changing, and Europe will no longer be able to play a role if the European States continue to try and solve today's problems with yesterday's ideas and instruments. The opportunity and the need for a new beginning are present in the challenge of creating a European Monetary Union using new and unconventional methods. Whether we make use of the opportunity depends not least of all on you.

Brussels, 12 March 1974

THE ONLY WAY TO EUROPE IS FORWARD

Summary of a lecture by Vice-President Wilhelm HAFERKAMP  
at the German Banking Conference in Bonn on 12 March 1974

"The outlook for monetary integration in the European Community" was the subject of a lecture by Mr. Wilhelm Haferkamp, Vice-President of the European Commission, at the German Banking Conference in Bonn on 12 March 1974.

Mr. Haferkamp described the stage reached in economic and monetary union and indicated important reasons for the standstill and the set-backs in the progress towards European integration. He said that the Community had come to a cross-roads, but that this should not give rise to any doubt as to the need for economic and monetary union, which was more important today than ever before. However, maybe different methods and techniques should be found in order to achieve it.

The second stage of economic and monetary union was already due to start in 1974. Instead, the planned monetary union was in danger of disintegrating into its national components. Only five, instead of nine, Member States were still taking part in the joint float. The oil crisis was serving as another test of the Community's strength. The Community had not won the battle yet. On the contrary, the Member States preferred an "every man for himself" policy to a common approach.

What are the reasons for this unfortunate development in the progress towards economic and monetary union? Mr. Haferkamp saw three:

1. Europe began monetary integration too late. The creation of the Common Market was based on a workable international monetary system. Today, however, monetary integration was necessary if the progressive collapse of the international monetary system was to be halted.
2. The economic policy aims of the individual Member States still differed too much. Integration required the co-ordination of the aims and instruments of economic policy. Even more, the serious regional and structural differences had to be overcome by joint efforts.
3. The co-ordinating bodies have so far been too loosely knit to be able to achieve any real co-ordination with regard to economic, stability or employment policies. The Governments had so far shrunk back from transferring their national sovereign rights to the Community. The stage of declarations of intent had so far not been put behind us.



Mr. Haferkamp stressed that further progress towards monetary and economic integration was the only solution if the Common Market was to survive. Without a stable basis there was always the danger of regression or disintegration. The Common Market could be dismantled more quickly than many people imagine today.

In the present disarray in the monetary situation the European Community also had a responsibility vis-à-vis the whole world. If it acted quickly with a view to achieving monetary co-operation it could assume a positive regulative function at a time when the international economic system is in danger.

Mr. Haferkamp said that the Community must realise three essential facts:

1. Monetary integration must become the new incentive for complete integration.
2. Most of the plans for economic and monetary union are still on the drawing board. They completely lack any links with markets, banks and firms. A permanent dialogue at European level and a concerted attitude by the central banks and the commercial banks of the Member countries must serve to ensure the application of a common policy towards the ambient monetary world.
3. A liberalised capital market is necessary in order that the differences in structure and productivity in the Community can be ironed out. The planned Regional Fund would be overburdened if it had to cope with this task on its own.

The present monetary situation was shaky. The Member States must therefore work together to obviate the dangers of a collapse of the international monetary system. The rise in the price of oil and speculation on currencies were giving rise to the fear that such dangers will continue or become even more serious. In view of the imminent deterioration in the balances of payments of some industrialised countries, floating currencies were at the worst danger, but they must be brought under control through the implementation of a co-ordinated policy. A monetary alliance between the Community and the leading industrial countries, particularly with the USA, which is aimed at co-operation with the oil producing countries, would be desirable in this connection. This could ensure a minimum amount of international order and contribute towards stabilisation for those currencies which are floating on their own.

Mr. Haferkamp did not envisage a collapse of the Community in the near future. However, the Member States must learn to consider the Community as a pillar which should ensure a minimum amount of stability both internally and vis-à-vis the outside world. However, a standstill in the progress towards integration contained the danger of disintegration and a return to the idea of separate national approaches which no Member State wants, let alone could put into effect. Consequently, the only way was forward towards a European economic union.

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INFORMATION A LA PRESSE  
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Bruxelles, le 12 mars 1974.

L'EUROPE EST CONDAMNEE A ALLER DE L'AVANT

Résumé du discours prononcé par M. Wilhelm Haferkamp, Vice-Président de la Commission, devant la Deutscher Bankentag à Bonn, le 12 mars 1974.

"Les perspectives de l'intégration monétaire dans la Communauté européenne" ont constitué le thème du discours que M. Wilhelm Haferkamp, Vice-Président de la Commission des Communautés européennes, a prononcé le 12 mars 1974 à Bonn devant le Deutscher Bankentag.

M. Haferkamp a exposé la situation de l'Union économique et monétaire et énuméré les principales raisons de l'arrêt et de la régression de l'intégration européenne. La Communauté se trouve à la croisée des chemins. Toutefois, la nécessité d'une union économique et monétaire ne devrait pas être mise en doute. Elle est aujourd'hui plus importante que jamais, mais il faudrait peut-être trouver d'autres méthodes et d'autres techniques pour la réaliser.

L'année 1974 devrait marquer le passage à la deuxième étape de l'union économique et monétaire. Au lieu de cela, l'union monétaire projetée risque de se disloquer pour faire place aux divers éléments nationaux qui la composent. Les Etats membres qui participent au flottement commun ne sont plus que cinq au lieu de neuf. La crise du pétrole soumet une nouvelle fois la Communauté à une rude épreuve qui n'est pas encore surmontée. Au contraire, les Etats membres préfèrent la politique du "chacun pour soi" à l'action commune.

Quelles sont les causes de cette déviation dans la marche vers l'union économique et monétaire ? M. Haferkamp en voit trois.

- 1) L'Europe a entamé trop tard le processus d'intégration monétaire. La création du marché commun était basée sur un système monétaire international en état de fonctionner normalement. Mais aujourd'hui, l'intégration monétaire est nécessaire pour stopper la dislocation progressive de l'ordre monétaire mondial.
- 2) Les objectifs économiques des Etats membres sont restés trop différents. L'intégration implique la coordination des objectifs et des instruments de la politique économique. Bien plus, les fortes disparités régionales et structurelles doivent être supprimées par une action commune.
- 3) Les organes de coordination n'ont pas eu jusqu'ici la cohésion suffisante pour parvenir à une concertation réelle des politiques dans les domaines de la conjoncture, de la stabilité et de l'emploi. Les gouvernements n'ont toujours pas pu se résoudre au transfert de certains éléments de la souveraineté nationale à l'échelon communautaire. On en est resté à des déclarations d'intention.



M. Haferkamp a souligné que la poursuite de l'intégration économique et monétaire constitue la seule chance de survie du marché commun. A défaut d'une base solide, le danger d'une régression ou d'une désagrégation demeure. La destruction du marché commun pourrait se faire plus rapidement que beaucoup ne l'imaginent aujourd'hui.

Dans la situation actuelle de désarroi monétaire, la Communauté européenne a également une responsabilité mondiale. Elle peut, si elle agit rapidement dans le sens d'une coopération monétaire, jouer un rôle ordonnateur positif à un moment où l'économie mondiale est menacée.

D'après M. Haferkamp, la Communauté doit prendre conscience de trois faits essentiels :

- 1) L'intégration monétaire doit devenir le nouveau moteur de l'intégration.
- 2) Les plans d'union économique et monétaire en sont souvent restés à l'état d'ébauche, faute d'être en prise directe sur les marchés, les banques et les entreprises. Un dialogue européen permanent et une attitude concertée des banques centrales et des banques d'affaires des pays membres doit permettre la mise en oeuvre d'une politique commune vis-à-vis des autres milieux monétaires.
- 3) Il faut que le marché européen des capitaux soit libéralisé davantage pour réduire les différences de structures et de productivité dans la Communauté. Le Fonds régional, tel qu'il est conçu serait surchargé s'il devait exécuter seul cette mission.

La situation monétaire actuelle est incertaine. Les Etats membres doivent donc lutter en commun contre le danger d'un effondrement de l'ordre monétaire international. La hausse des prix du pétrole et la spéculation sur l'or laissent redouter que ce danger existe toujours et même qu'il s'aggrave. Compte tenu de la détérioration que vont subir les balances des paiements de certains pays industriels, le flottement des monnaies n'est pas la pire solution, mais il doit être contrôlé par une politique concertée. A cet égard, il serait souhaitable que s'instaure entre la Communauté et les principaux pays industriels, en premier lieu les Etats-Unis, une entente monétaire qui soit en outre axée sur la coopération avec les pays producteurs de pétrole. Celle-ci permettrait de garantir un minimum d'ordre à l'échelon international et aurait ainsi un rôle stabilisateur, même pour les pays dont la monnaie flotte isolément.

M. Haferkamp estime que l'on ne se trouve pas à la veille de l'effondrement de la Communauté. Les Etats membres doivent cependant apprendre à concevoir la Communauté comme un pilier qui garantit le maintien d'un minimum de stabilité à l'intérieur comme à l'extérieur. Toutefois, l'interruption de l'intégration fait peser la menace d'une désintégration et d'une renationalisation qu'aucun Etat membre ne veut et à plus forte raison ne pourrait supporter. Il ne reste donc plus qu'à aller de l'avant pour réaliser l'union économique de l'Europe.