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Premature Monetary Move

The politicians' satisfaction about the Washington accord did not last long. Six weeks after the "most significant monetary agreement in the history of the world" (President Nixon) had been reached, it has become clear to everybody that the most important problems have not been solved: The new official gold price is fictitious, for now as before the USA are neither willing nor in a position to settle their dollar commitments in gold. The exchange restrictions introduced in many countries during the currency crisis have only partly been removed. Contrary to expectations, the desired dollar reflux into the USA did not materialise and, what is even worse, the dollar exchange rate dropped again after a temporary recovery. The uncertainty of exporters and importers has not eased after the realignment.

Such uncertainty is mainly aroused by doubts about the stability of the new "central rates" which, as is well-known, are the outcome of political bargaining and do not necessarily correspond to the medium-term equilibrium rates. Another reason for the traders' uneasiness is the widening of the band from $\pm 0,75$ to $\pm 2,25$ p.c. around the central rates vis-à-vis the dollar, by which the fluctuation margin between non-dollar currencies is increased from 3 to 9 p.c. The EEC Commission wants to relieve the enterprises from part of their concern: it recently suggested a reduction of the margins between EEC currencies down to 4 p.c. Thereby the commission has picked up in a modified form suggestions made in 1971 which the currency crisis prevented from being realised at the time.

According to previous proposals, the implementation of the scheme would call for the EEC countries' central banks to fix a "common exchange rate level" vis-à-vis the dollar, around which the market rates can oscillate within the reduced margin. Any larger exchange rate movements would be stopped by dollar interventions, and possibly also by interventions in EEC currencies, at the latest when reaching the new limits internally agreed upon by EEC countries. The "com-

mon level", the reference point for the fluctuations of market rates, would not be permanently fixed but would be changed as and when required by exchange rate developments of the individual currencies.

Such a procedure, of course, necessitates a highly uniform development of the individual EEC countries' exchange rates. If such conformity does not exist, i.e. if some currencies show a pronounced upward trend whilst others drop, central banks will be forced to buy or to sell foreign currencies at an earlier date as if they were able to utilise their full fluctuation margins. A deficit country's foreign exchange outflow and a surplus state's (inflationary) foreign exchange inflow will therefore be larger than under normal Bretton-Woods conditions. A shift in the margin of fluctuation reduces or solves the problems of weak EEC-currencies only at the expense of the strong ones, and vice versa. The solidarity of the members will thus be subjected to a tensile test the result of which is uncertain for the Community.

A prerequisite to a uniform exchange rate development is economic harmonisation. This again calls for a high degree of political agreement on economic objectives and measures — not only among governments but also among trade unions and employers. The events which took place in spring 1971 have shown that conformity has not been reached to the necessary extent. And how much smaller are the hopes for the achievement of such agreement after the number of EEC member states will have been increased up to ten. The fixation of narrower fluctuation margins, just as the creation of other monetary "mechanisms" is premature. According to Otmar Emminger, Deputy Governor of the Deutsche Bundesbank, the reduction of margins of fluctuation within EEC will have to be considered not so much an instrument of monetary harmonisation than an indicator of progress already made in harmonisation. Their precipitate materialisation will enlarge the political-economical problems of the EEC rather than help to solve them.

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