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The Long March Toward a Currency Union

In the EEC the long march toward a currency and economic union has been resumed after all attempts since May of last year had stagnated with the outbreak of the currency crisis and the transition to a flexible exchange rate for the Deutsche Mark. The starting point was the agreement reached by President Pompidou and Chancellor Brandt at their Paris meeting early in February. Through this agreement the political basis was laid on which at the beginning of March the economic and finance ministers came to terms about first initiatives. In consultation with the countries which are planning to join, the EEC Ministerial Council endorsed their terms of agreement at the end of March, whereby the first move of the Community toward monetary independence was made.

The most important result of these agreements is the compromise that was reached between the standpoints of the so-called "monetarists" and the "economists". The monetarists believe that the currency and economic union can succeed only if the central banks would begin with concrete coordination programmes. The economists, on the other hand, are of the opinion that, in the face of opposing economic policy conceptions among the member countries, a harmonisation of the economic objectives should be of primary concern in order to avoid inflation. In the agreement concerned, both elements have been combined.

It was next agreed that through uniform measures the central banks in the EEC will reduce step by step the margins of fluctuation for the exchange rates within the Community by July 1, so that beginning on this date, a maximum margin of fluctuation of only 2.25 p.c. will be allowed among the EEC currencies. At the same time it was emphasised that, according to the Washington currency decisions, the permissible margin of 4.5 p.c. against the US-dollar should be employed. Thereby the hitherto existing precedence of the dollar in the monetary flows among the member countries will be neutralised, since in the future, the so-called cross-rate can only be 4.5 p.c. instead of the heretofore possible 9 p.c. To achieve this goal the central banks have the authority to intervene with member currencies when their exchange rates reach the EEC margins, i.e. 2.25 p.c.,

and with US-dollar, if this currency reaches the margin of 4.5 p.c. permissible in line with the IMF specifications. Only by agreement among themselves is it permissible for the central banks to intervene within this range.

However, these measures would be left hanging if the attempt were not made to steer the economic development within the community in a common direction. If one country thinks only of growth and full employment and another only of price stability, the narrowing of the margins of fluctuation would remain without results. Because of the different economic policies, this measure would be subject to a fatal endurance test.

For this reason it was only logical that Bonn's recommendation to form a steering committee for the coordination of economic and financial policy was accepted — and at the same time, at Italy's proposal, the formation of a fund for regional purposes was resolved. It is planned that the steering committee will meet perhaps every six weeks to examine and coordinate the individual countries' plans, information and available devices. With time, it could develop into a European economic cabinet within which conflicts could also be settled.

It should certainly be made clear that even a well-functioning committee of high-ranking officials offers no guarantee of a better economic policy directed toward growth and stability. And how well it functions depends on to what degree the member countries are prepared to forego sovereign politico-economic rights and objectives. As experience has shown, it is legitimate to remain sceptical in this regard. The most topical example of such diverging interests is—unfortunately—once again the dispute between the Ministers of Agriculture about higher farm prices and a cancellation of the German compensatory payments to farmers, conditioned by the DM-revaluations. If already in a sector of not too much—economic—importance violent conflicts emerge, how serious will they become if targets and measures are at stake which are of fundamental importance for broad strata of the population? For that reason no final "victory" has been gained in Brussels; at best, a battle has been won.

Otto G. Mayer