

Rugina, Anghel N.

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Critical Analysis of the Barre-Plan

by Professor Anghel N. Rugina, Boston *

The Commission of the European Communities, in the spring of 1970, accepted "A Plan for the Phases Establishment of An Economic and Monetary Union", based on the Barre-Memorandum of February 12, 1969, prepared by M. R. Barre, himself a former Commission member. This article deals with the still unanswered questions which according to the author were raised.

In its official announcement of the Barre-Plan, the Commission stipulated that "it reserves the right to put any further proposals to the Council on the matter at a later date"¹. For the time being there is evidence of a need to reappraise the Barre-Memorandum in view of the new situation created after the suspension of the convertibility of the American dollar on August 15, 1971. Indeed the Barre-Plan raises too many questions still unanswered and therefore, in its present form, may not produce the desired goal of a "European Monetary and Economic Union", without encountering other difficulties or requiring additional unnecessary sacrifices.

A First Step in the Right Direction

On April 23, 1972, the member countries of the Community put into effect the decision to narrow the margins in the fluctuations of their foreign exchange to a maximum of 2.25 p.c., around the official parity. These narrow margins actually represent the simulation of the gold-points in the old gold standard and which, by the way, were used up to a maximum of 2 p.c. also by the International Monetary Fund (IMF) until December 1971, when they were increased to a maximum of 4.5 p.c., as an aftermath of the US dollar-crisis.

The April decision taken by the European Community is a first step in the right direction; but in order to reap the fruits of foreign exchange stability, such a measure requires the cooperation and support of a genuine gold-points mechanism which is missing here. Of course it is premature to hail or to question the wisdom of this particular decision. One has to wait for the full impact since

in less than two months after the new decision, situations could not yet develop where large reserves in gold and other convertible currencies move from one country to another.

The fact that Great Britain joined the same accord on May 1, and on June 16 the Central Banks of Germany, France and Belgium were already requested to support the British pound in order to avoid a new sterling crisis, raises new questions about the future of the planned European Monetary Union. Great Britain will become a full member of the Community on January 1, 1973.

The application of the new measure, without the support of a genuine gold-points mechanism, may end with a sharpening of the division between "creditor and debtor countries" within the Community, exactly as happened earlier within the IMF, a situation which is highly undesirable. And the recent event with the British pound is a case in point. To respect the rule of narrow margins in the framework of today, there is need for additional compensatory policies (monetary and other economic measures) in both debtor and creditor countries, which at times — according to the experience of the IMF — may not be desirable or even possible. The lesson is clear: There is no substitute for the gold-points mechanism.

Unification By Stages Hazardous

The monetary and economic unification of Europe by stages (1970/72; 1973/75 and 1976/78) as proposed in the Barre-Plan is full of risks, and in terms of cost and efficiency it may become too expensive when the final product will be delivered. Already there are frictions on the very question of whether the procedure should follow first with monetary decisions and leave the economic matters to be adjusted to the new conditions or vice-versa to align the economic policies to a point of central coordination and then leave monetary

* Northeastern University, Boston, Mass. The author was between 1965-70 Chairman of the Board of Economic Advisors to the Governor of the State of Massachusetts.

¹ The excerpts used in this article are quotations from: Commission of the European Communities, Secretariat General, A Plan for the Phases Establishment of an Economic and Monetary Union, Supplement to Bulletin No. 3 — 1970.

matters to be adjusted accordingly. This question of priority between monetary and economic policies shows undoubtedly that the Barre-Plan has no self-regulating mechanism in functioning. In addition it is a controversial issue because it requires the national governments in existence to abandon a certain amount of sovereignty but nobody knows exactly just how much the loss will be. The Barre-Plan is not explicit at all on this issue.

What happened in August 1971 at the international level (the US dollar-crisis), could occur between 1972 and 1978 within the European Community and thus hinder the accomplishment of the proposed union. The lesson here is also clear: The monetary unification "by stages" over a longer period of time, is hazardous. A customs-union, without any doubt, can be constructed "in stages", by a gradual reduction and final elimination of import and export duties and other barriers. A monetary union is a different story. Its central point resides in the use of a unified monetary unit for all the countries within the union. And a monetary unit has to be stable, that is expressed in a fixed quantity or a "constant" which has to be determined at a given time and cannot be established "by stages".

What the Barre-Plan envisions is that "by stages" it would be easier to reach a de facto central co-ordination of economic policies of the member countries and then the monetary unification would have to be accepted as a must of the new situation. In real life such a game may not be successful. Monetary matters cannot be separated from economic decisions over a longer period of time, such as between 1972-78, without being exposed to other serious consequences. The lesson here is again clear: To be sure of good results, the monetary and economic unification of Europe has to be conducted at one and the same time and not by stages.

The Barre-Plan and the Status Quo

The Barre-Plan does not possess an easily identifiable framework with a precise indication of the kind of society and economy that will exist when the Union will be completed and of the specific techniques or reforms which would guarantee that the ultimate goals will be reached. To mention — as the Plan does — that the purpose of the Union is to secure "growth and stability" is of course good but is not enough. Examining the text in certain places, the Barre-Plan seems to be based on the status quo of the existing conditions, both on the national and international levels. On the national level, the Plan appears to preserve the system of managed paper-money and controlled bank credit,

i. e. the old capitalist system with its known problems of financial instability.

On the international, respectively on the Community level, the Barre-Plan assumes the continuation of the existing order with a combination of gold and Special Drawing Rights. In this way the European Monetary Union would be another copy of the original framework of the International Monetary Fund. But here starts a dilemma because the IMF proved to be unworkable in the long run. And the crisis of 1971 supplies enough information to confirm this conclusion. To be sure, the failure of the IMF was not due to its management (actually of the highest quality!) but rather to its structural framework, which from the beginning was weak; it never could reach a position of stable equilibrium since its mixed, inconsistent framework lacked the indispensable support of a genuine gold-points mechanism.

The future of a possible monetary union based on the Barre-Plan is in danger of a fiasco, not because of lack of adequate management but because of its framework, in certain points linked too strongly to the status quo. It would be unfortunate if the leaders involved in such an important project did not learn the right lesson from the recent crisis of the International Monetary Fund and the downfall of the British pound and the American dollar. The status quo has to be changed in order to open the road for new better times with financial and economic stability in Europe as elsewhere. There is, however, another side of the Barre-Plan which raises still more fundamental questions, very difficult to be answered within the framework of the status quo.

Concept of Government Controlled Economy

From the financial, specifically monetary and banking point of view the Barre-Plan appears to be strongly conservative, as mentioned above. But when the question of coordination of national economic policies within the Community arises, an entirely different picture comes to the fore in opposition to the status quo. In article 6 of the plan one can see that "coordination" means control of the status quo by a central organization of the Community (a government planned and controlled economy), as opposed to a social economy based on free markets. In this respect it is disquieting to read under art. 6 (b): "A vigorous drive will need to be undertaken for the comprehensive ordering of the economy, by appropriate action with respect to monetary and financial policy, budget and tax policy, and incomes policy. The process is more likely to develop smoothly if the co-ordination of the overall economic policies is accompanied by structural mea-

tures: for resources to be so allocated as to yield the optimum result for the Community as a whole, it will first be necessary to take steps to reduce those disparities in structures among the member countries which tend to hamper the formulation and implementation of joint policies."

This kind of co-ordination by a "comprehensive ordering of the economy" and undertaking "structural" changes through a Central Agency of the Community, is reminiscent of the application of the concept of a government planned and controlled economy, even though the text does not say it in such precise wording. Yet this interpretation seems to be close to the spirit of the Barre-Plan when one reads further under art. 15 (a): "The object here must be to seek to ensure adequate compatibility of the movement of the Community countries' economies by framing more and more closely co-ordinated policies. Medium-term policy should establish the basic conditions for compatibility, in the light of the quantified guidelines for the main economic aggregates; short-term policy should outline what action can

best be taken to keep the movement of the economies within acceptable compatibility margins."

The technical expressions of "closely co-ordinated policies" and "quantified guidelines for the main economic aggregates" or "acceptable compatibility margins" for even short-term policy (all determined by a Central Agency of the Community), obviously are more closely related to the framework of a government planned and controlled economy than to a social economy based on free markets. If the Barre-Plan really leans toward a centrally planned and controlled economy of all the countries within the Community, then a warning may be valid in the appropriate places. On this road the application of the plan in question may inevitably and unfortunately end with unpleasant results, such as: frequent and deep conflicts of interest between the Community and individual member countries; the necessity to give up more and more national sovereignty and the right of home rule; and the mushrooming of a powerful and expensive bureaucracy on the Community level.

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All these undesirable features will generate with the passing of time political irritations, resentments and perhaps second thoughts among the associated governments concerning the usefulness and success of the monetary and economic union. A different plan oriented toward conditions of stable equilibrium would avoid all these ill effects.

The Problem of Vested Interests

The Barre-Plan seems to share the philosophy that a Central Agency of the Community could arrange a compromise and maintain a balance between vested interests in big business and organized trade unions, including other large organizations in particular economic and social sectors. Here is the text of art. 4 which provides: "To secure the support of trade unions, business federations and other groupings in the member countries for the measures to institute economic and monetary union, arrangements would have to be made for regular concertation between the Community institutions on the one hand and the unions, employers federations and other representative bodies in particular economic and social sectors on the other, the latter to be asked to state their views (the procedural details to be settled later) on the main lines to be followed in economic, fiscal and monetary matters, and on decisions of more direct interest to them."

The experience of other countries which have tried the same method of reaching a compromise shows unsatisfactory results. Accordingly, such an arrangement to consult those organizations in fact will lead to the development of intricate and insidious lobbyism attempting to influence the decisions of the new Community's monetary and economic institutions. Lobbyism may induce further corruption, in addition to the fact that compromise solutions of this nature are not consistent with conditions of stable equilibrium.

Under conditions of stable equilibrium the vested interests in question are neutralized to the zero-point where the current prices do not include any extra profit. Indeed equilibrium prices are equal to the cost of production or acquisition, where a normal rate of profit was added just to compensate for the cost of managerial services and nothing else except taxation. The Barre-Plan does not offer anything new to resolve effectively this fundamental problem of contemporary society.

Danger of a Bureaucratic Octopus

A rigorous application of the Barre-Plan to achieve economic and monetary union of Western Europe may result in an immense bureaucratic

octopus, expensive, unproductive and feeding off the fruits resulting from the increase in productivity of an enlarged common market. It must be remembered always that it is relatively easy to create a huge bureaucracy under the attractive terms of "coordination" and "greater cohesion" but it is very difficult, sometimes impossible, to dismantle it when one discovers that it does not serve the planned purpose.

The danger of a bureaucratic octopus in a modern society can be avoided only by developing strong self-regulating mechanisms in the economic, monetary, banking and financial field, with a well devised system of selective controls to find out whether or not they function in the way they are supposed to and to repair them immediately when they are out of order for some reason. Indeed, only such a general framework oriented toward conditions of stable equilibrium would resolve peacefully the problem of monopoly and vested interests of any nature and create at the same time that ideal form of environment for a free society where the "least amount of government intervention" is necessary. Unfortunately, the greatest weakness of the Barre-Plan lies in the fact that its inception lacked a general framework of stable equilibrium.

New Financial and Economic Bloc

Finally if the Barre-Plan in its present form would be vigorously applied, then from the international point of view, the end result may be nothing but the establishment of another financial and economic bloc in the world to match or to serve as a buffer-zone between the USA and the Soviet Union or to compete with them. Such a result may have political appeal to certain individuals and centers of financial and economic power, but it does not help in solving any of the most urgent problems of contemporary society in Europe and elsewhere. For the moment such a West European financial and economic bloc may have no immediate problems because of its strong creditor position versus the rest of the world. But when Great Britain will join the Community on January 1, 1973, the situation may begin to change.

With full recognition of the credit due to M. Raymond Barre, who provided the first comprehensive plan, there is need for a continuation of the dialogue regarding the best way to construct a strong and viable, free and stable European Monetary and Economic Union. And the best way cannot be other than the realization of a general framework oriented toward conditions of stable equilibrium for the Community as a whole, as well as for each member country.