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Article — Digitized Version

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Intereconomics

Suggested Citation: Haferkamp, Wilhelm (1973) : EC economic and monetary policy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 08, Iss. 6, pp. 170-172,
<https://doi.org/10.1007/BF02927642>

This Version is available at:

<https://hdl.handle.net/10419/138843>

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EC Economic and Monetary Policy

Interview with Wilhelm Haferkamp, Vice President of the Commission of the European Communities, Brussels, on the difficult and long-term process of establishing an Economic and Monetary Union in Europe.

The decision to set up the European Monetary Cooperation Fund is an important step towards economic and monetary union. For what tasks is the fund intended?

The European Monetary Cooperation Fund which was set up on May 6, 1972 — even before the second stage of the Economic and Monetary Union began, which means earlier than originally intended — is a first step in the direction of a European central bank system. For the present its tasks, powers and attributes are still modest, namely,

□ the central banks of the member countries will harmonise the mutual interventions by which the narrowed 2.25 p.c. band system for the Community currencies is being maintained and possibly improved;

□ the settling of balances in the Community will be multilateralised through regular settlement by means of a European monetary account unit of the

debts and claims arising from support operations for Community currencies; and

□ it will manage the short-term monetary support credits of presently about 1.4 bn units of account.

More important will be the future tasks of the Fund. The further development of the Fund will have to proceed step by step. It will shortly take on the management and deployment of the member countries' currency reserves which are to be transferred gradually to the Community. It will have to ensure closer convergence of domestic money and credit policies inside the Community and argue and operate the common monetary policy vis-à-vis third countries.

Concerted Floating

Will the second stage of the Economic and Monetary Union, scheduled to begin on January 1, 1974, be achieved if the narrowed margins of fluctuation of 2.25 p.c. are operated by six

member states only and not by Great Britain, Ireland and Italy?

The inclusion of all member countries in the concerted float while the narrowed margins of fluctuation between member countries' currencies are maintained will be an important objective for the Economic and Monetary Union in the near future. All member countries will have to join in the moves and efforts to advance on the way to the final stage of Economic and Monetary Union. The Commission expects the three member states with separately floating currencies to rejoin the Community's intervention system as quickly as possible. At what time they rejoin will depend on various measures and circumstances which cannot all be enumerated here. The three countries must as soon as possible again link up with the rest of the Community — in regard to the domestic policy of fighting inflation as well as in stimulating an economic upturn. A stable equilibrium between the balances of payments of the

member countries cannot be assured without alignment of their economic development on a lasting basis. Compatible policies of demand management in the Community must go hand in hand with effective measures of regional and social policy, both on the national and on the Community level. Proposals and action programmes for this purpose were put before the Council of Ministers by the Commission in recent weeks.

Although different reasons have kept Great Britain, Ireland and Italy from accepting the narrowed band, all are due to structural problems. Is a monetary link-up possible between economies with disparate structures?

Hampering Factors of Amalgamation

Structural problems, i.e. regional and sectional differences between national economies, are not the decisive reasons against economic and monetary integration. The differences and distinctions inside the national areas bear out this thesis. Among factors hampering the amalgamation of markets and economies with structural disparities are obstacles impeding regional and sectional adjustment processes, rigid attitudes on the part of economic groups, employers' and workers' organisations and bureaucracies, and lack of private and official promotion and adjustment mechanisms. Creation of a large common market by elimination of discriminatory practices in trade, personal and capital transactions inside the external borders can facilitate the adjustment processes of modern industrialised societies because they create new impulses for competition, investment and growth. But a community like the Economic and Monetary Union which is imbued with a spirit of

solidarity has a special duty to give a helping hand to member states in serious difficulties and aid them through European financial adjustments inside the Community.

Development of Policies

Some critics believe that there will be no common monetary policy as long as there is no common economic policy and no common approach to cyclical problems. How do you assess the prospects for a common EC policy on these matters?

There is little point in prolonging the debate on the priority of monetary or economic policies in the Community. In the long term the development must follow a, by and large, parallel and converging course in all sections of economic and social policy. Only a homogeneous policy can make European integration a lasting success. What practical measures of common policy can be taken at any given time depends however on a number of external and internal circumstances and the urgency of finding a solution for certain concrete problems. The Commission has presented a number of guidelines and concrete proposals for economic, monetary and structural policy in the action programme which it adopted before May 1. In the second stage of the Economic and Monetary Union the European Community will have to prove the case for its economic and cyclical policy, and the test will be whether and how fast further progress can be made in the monetary sphere.

Without a Community policy for currency matters, capital markets, etc., it will be impossible for the economies of the member states to advance according to the same cyclical pattern and achieve a more uniform structural development.

How does the EC intend to resolve the dilemma which has arisen because its members have taken increasingly dirigist measures to preserve the monetary integration achieved so far and have thereby departed farther and farther from implementing the economic and monetary union?

Dirigism vs. Liberalisation

In the course of the Economic and Monetary Union's first stage the Community suffered serious setbacks, especially in its efforts to merge the national capital markets. The dirigist defence measures taken were not just a reaction to the many violent currency crises which by giving rise to excessive in- and outflows of capital endangered such integration as had been attained but they were in themselves evidence that in a situation of increasingly interlaced flows of goods and finance inside the Community national instruments of economic and monetary policy had failed to cope with disruptive influences from abroad. Among the urgent tasks of the next few years will be that of shifting the defences against excessive and disruptive capital movements step by step to the external borders of the Community and to remove intra-Community controls and constraints as quickly as possible.

It follows that until full economic and monetary union is achieved the present checks on capital movements, which are being applied without adequate coordination, must be restructured so as to make them a component part of the intra-Community "policy of convergence". To this end the instruments must be made reversible in both directions — one and the same instrument must be usable against both inflows and outflows of capital. In this way it

will be possible to fit the policy of capital regulation into a Community framework. Only when this has been done can we reestablish full liberalisation of capital movements.

Do you think that the narrowed margins of fluctuation inside the EC together with a joint float against external currencies provide a lasting solution?

The member countries of the Community have repeatedly come out in support of an exchange rate system with fixed but adjustable parities as the long-term objective of a viable world monetary order. We shall have to live with the transitory solution of the Community's joint float against external currencies until a sound and lasting order for the international exchange ratios is in sight. The durability of the Community system of narrow fluctuation bands will be determined by the member countries' progress towards gradual accomplishment of economic and monetary union. The pessimists who spent their time predicting the collapse of the joint intervention and support system have so far for the most part been proved wrong.

Reform of World Monetary System

What chances do you see at present for putting the EC's ideas for a reform of the world monetary system into effect?

Whether and how fast the reform of the international monetary system can be accomplished depends to no small degree on the answer to the question how quickly the United States will find its way back to a better balance of payments equilibrium and to dollar convertibility. The enlarged Community, being the largest trading partner in the western world, has an urgent interest in a speedy and durable reform. It bears a major share

of responsibility for efforts to let this new order of international monetary relations make a contribution to further world trade liberalisation, to termination of the special status of certain currencies and to fair distribution of the burdens of adjustment in the event of payments imbalances. As the enlarged Community has begun to speak with "one voice" at IMF conferences, it may be hoped that in future negotiations the Community will gain an adequate hearing. Only by acting as an entity can the Community exert influence on the arrangements for the new system and its efficiency.

Do you expect the reform of the world monetary system to result in a break-through to flexibility or will the future reformed system still be based on fixed parities?

The degree of flexibility of exchange ratios in the future world monetary system is not a theoretical problem to be solved once and for all but a task of practical economic policy to be discharged constantly by all the industrial and developing countries which are participating in world trade. The flexibility of the monetary order will ultimately depend on the inclination and ability, especially of the major trading countries, to accept the necessity of mutual adjustments in their domestic economic policies or else to retreat from the state of integration and division of labour which has by now been achieved in the world economy to a lower level. Except in emergencies greater exchange rate flexibility will only then be accepted when the destabilising international capital movements can be brought under better control.

The creation of a Euro-currency, to be called Europa, is currently under discussion in the Community. What features

should this currency have and what is the Commission's attitude to this suggestion?

Creation of Euro-Currency

The aim is to advance on the route to a monetary union pursued until now to a gradual narrowing of the margins of fluctuation through progressive harmonisation of economic development trends in the member countries until full and irreversible convertibility of Community currencies at irrevocably pegged exchange rates is at last achieved in the final stage. More recent proposals envisage the creation of a European currency at an earlier stage of the integration process already. The plans for an Euro-currency to be established side by side with the existing national currencies are still in the discussion stage; a number of practical questions have not yet been solved. In the action programme for the transition to the second stage of the Economic and Monetary Union which the Commission adopted recently it is proposed that the European monetary account unit should be invested with more substantial monetary functions.

Will creation of a Euro-currency as a parallel currency to be used side by side with existing currencies involve a substantial surrender of sovereign rights?

Both the routes mentioned require intensive coordination of the economic and monetary policies of the member countries, leading eventually to their gradual Communitisation. In either case it is ultimately indispensable for the proper functioning of the Economic and Monetary Union that national competences are transferred to Community organs. It would be a grievous mistake to believe that this political process can be dodged by recourse to technical tricks.