

Economic and Monetary Integration

Economic and monetary union is seen as the eventual outcome of a customs union and a major stride toward "European union".

As early as 1964, the six founding members discovered that their fledgling Common Market had an existence of its own. Trade had bound the six economies so closely that inflation in one country quickly spread to the others. Some economic policy decisions had to be made jointly, since each member country's policy affected all.

The EEC Treaty committed member states to viewing cyclical policy and exchange-rates as matters of common concern and to designing economic policies for balance-of-payments equilibrium. It provided for a Monetary Committee to help co-ordinate members' economic policies, to review their monetary and financial positions, and to deliver opinions at the request of the Commission or the Council of Ministers. In 1964, the Committee of Central Bank Governors was formed to co-ordinate policy at the operational level.

Repeated currency crises since 1969 argued for tightening economic and monetary policy co-ordination. Revaluations and devaluations threatened the Common Market, based on free trade in stable monetary conditions.

In 1970 the Council resolved that the Community should ultimately form an economic and monetary union. This would: — comprise an area where persons, goods, services, and capital moved freely — but without distorting competition or causing structural or regional imbalances — and where economic activity could develop on a

Community scale;

- give the Community a single monetary personality within the world monetary system, characterized by complete and irreversible currency convertibility;
- hold economic and monetary powers to allow its institutions to administer economic union.

The first stage of economic and monetary union began in March 1971. During this stage, 1971 through 1973, the Six agreed to:

- narrow the exchange-rate margins between their currencies;

- form a u.a. 2 billion medium-term aid pool to support members' currencies under exchange market pressures because of balance-of-payments deficits (this medium-term aid was in addition to a u.a. 2 billion short-term pool created in February 1970);
- co-ordinate short- and medium-term economic and budgetary policies;
- hold regular meetings of finance ministers and Central Bank governors.

In April 1972, member states agreed to restrain the exchange-rate fluctuations of their currencies within mutually-accepted limits but, after further monetary storms at the beginning of 1973, six member countries realigned their currencies in relation to each other and then jointly floated them as a unit against the dollar. Britain, France, Ireland and Italy have floated separately.

The European Monetary Co-operation Fund was created in 1973 for medium-term balance-of-payments support (two to five years). It also began managing short-term aid (two to three months). With the addition of the three new members, both short- and

long-term credit resources expanded to u.a. 2.725 billion — about \$3.3 billion each. An additional u.a. 1.5 billion (\$1.8 billion) could be raised from and lent to each member state. The fund will be capitalized at u.a. 500 million (\$600 billion). The Nine plan to pool part of their gold and foreign-exchange reserves in the Monetary Co-operation Fund.

Member states have intensified economic policy co-ordination. They hold special Council meetings on economic policy and set quantified guidelines for price increases, growth-rates, unemployment and balance of payments.

In 1974, the Short- and Medium-Term Economic Policy Committees and the Budgetary Policy Committee were merged into the Economic Policy Committee. This merger streamlined the decision-making process in overlapping areas. The Committee consists of four Commission representatives and four experts from each member country.

To help member countries to finance balance-of-payments deficits caused by higher oil prices, the Community has worked out plans to borrow up to \$3 billion on world capital markets. The Nine would jointly raise and guarantee the money.

Despite the efforts of member states to control inflation and reduce unemployment, the co-ordination of their policies has not so far been a marked success. Reporting to the Commission in 1975, a group of experts concluded that the phased plan to achieve economic and monetary union had been unsuccessful.