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SDR, in three important points. From the date of that meeting, it has become an established rule that:

☐ drawing rights may only be acquired and held by governments, central banks, and international institutions having functions similar to those of central banks. In this way, every kind of illusion about an alleged multi-purpose character of these credits has been scotched, especially the hopes cherished by certain members of the US Congress that SDR might, among other things, be utilised as instruments of development aid;

☐ drawing rights may be used exclusively for such transactions as have been clearly defined by the fundamental agreement of Rio de Janeiro. This again is a flat denial of all the notions, which had been rife, that SDR might attract, at a later date, additional functions, e.g. that of an international monetary unit, or be used for the consolidation of short-term currency debts, of which the most famous example are the sterling balances. It has now become clear that different solutions must be sought for this important problem.

☐ drawing rights will not be admitted as a surrogate for gold deposits in cases of the IMF increasing the members' gold quotas. This makes it equally clear that the ideas circulating of bullion payments which become due to the IMF being replaced by SDR are fallacies.

It has been the Stockholm meeting which made of SDR increasingly both an instrument of international clearing between national balances of payment, and of an all-sided increase of liquidity, but also of international monetary discipline. All earlier suggestions that SDR are a form of special credits to be extended to countries with a weak currency have been shown up as absurd. But it is of equal importance that the decision of the Stockholm conference to increase the credit factor contained in SDR makes it incumbent on all the members of the IMF to secure a much higher degree of adapting their balances of payments to the requirements of universal equilibrium. In this way, SDR have become an antidote against the ever-present dangers of contamination by inflation to which every country taking part in international trade is exposed. The new instrument of international payments has the double function of both making exchanges more dynamic and more stable.

To sum up: SDR have a double rationalisation effect upon the international currency system — on the one hand, they present a practicable alternative to the "monopoly" of national reserve instruments, whereby the latter are exposed to the rigours of competition. Unless these national reserve currencies prove their value better than in the past, these old reserve instruments, which transformed every national crisis immediately into an international one (a weakness which can also be charged against gold, because its sensitivity to speculative influences had a similarly adverse effect), will gradually be replaced by an international "reserve currency" that owns the advantage of being stable. The use of a stable instrument will at last enable the central banks to supply sufficient liquidity for the actual needs of world trade and international payments, independently of accidental deficits of individual balances of payments of any country, and of the decisions made by the big gold producers. SDR will make it possible to gain two highly desirable blessings, of which the world has stood in need for a long time, namely: more freedom in a more orderly system of supplying the liquidity needed by the world.

EEC in Need of a Currency Union

by Dr h c Alwin Münchmeyer, Hamburg

When the European Customs Union came into operation on July 1, 1968, this has hardly roused any enthusiasm in the Federal Republic of Germany or elsewhere, as people treated the new step almost as a matter of course. The event, moreover, lay under the shadow of the French crisis, the consequences of which for European integration cannot yet be fully assessed even today. In spite of thus coming in not with a bang but with scarcely a whimper, the customs union may be judged, by people of the future, as an important historical step. It represents a new and significant advance towards a European Economic Union as stipulated for in the Treaty on the European Economic Community.

Past the Point of No Return

Not only customs duties and physical import controls have been abolished "as a matter of principle" but also labour can circulate with almost complete freedom throughout the Community area. Progress has also been achieved in other fields. It is of great importance that the EEC countries succeeded in developing a common European policy on farm produce, though its actual rules and regulations cannot yet be considered to be completely satisfactory. However, its deeply entrenched institutions have now become the strongest bracket keeping the European Economic Community together. After the numerous alarums and crises of recent years, it may well be stated now that the point of no return has been passed by the Community. Economic integration of Europe will continue to evolve, and so will political integration one future day.

The Crisis of France

Not even the relapse into protectionist policies, which France employs to counter its current acute difficulties, will affect this movement in any way. It may be doubted whether the behaviour of the French agrees with their obligations towards the EEC, and equally doubtful is the benefit to the true interest of France which these measures are supposed to produce. The fear of great hardships, caused by unemployment in certain branches of their economy, which the French harbour, is probably somewhat exaggerated. True, restrictions placed on imports and subsidies boosting exports may slightly reduce the hemorrhage from which French currency reserves are now suffering but they also prevent France from obtaining the full use of European integration in its present predicament. Had France not used protectionist tools for overcoming its difficulties, the reserves of all the other European countries would have come to the country's aid unrestrictedly for financing imports for it, which would have hemmed in the trend towards inflation. In the long run, this would have also benefited French exports and balance of payments, which the French government considers to be of such overriding importance. However, the French government will know best what it has to do. At any rate, there is no reason to doubt the honesty of its statements that French import restrictions and export subsidies are to be of a temporary nature only.

But the crisis of France had also its good side. Perhaps it may have the effect that the vision of a united Europe which, in recent years, had often appeared to die a lingering death, will be imbued with new fire. There are a number of signs supporting this assumption. During the crisis, even General de Gaulle must have realised that France could not survive without European solidarity. He will certainly appreciate the fact that France's partners in the EEC have accepted the measures of French self-protection, though grumbling about them, and that the European central banks and even the American Federal Reserve System all made extraordinary efforts to support the Franc. The business community has discovered the chances offered to it by the Common Market, and sections of the French business world have already taken vigorous steps to profit from it.

Currency Union as Prime Mover

But how is Europe to approach the aim of a European Economic Union? I believe that there is no more favourable ground over which to make decisive advances than that of currency policy. The European Commission agrees with this view, for it recently adopted a strong recommendation in favour of closer EEC currency cooperation. Admittedly, this advice is not new, for during past years, the Commission has approached the aim of achieving a European currency union on several occasions, trying to forge on towards it. The most effective objection against the Commission's proposals, which was raised also on the German side, ran approximately as follows: only at the end of the advance towards a full economic union would it be possible to crown the good work by setting up a currency union, because common European currency policies would remain in the realm of wishful thinking as long as each government follows its own credit, budgetary, social welfare, and employment policies.

I believe that this form of rejecting further progress ought to be reviewed and revised, since it might be valid to argue along converse lines: the currency union might serve as the prime mover to enable us to travel towards integration, and not as its final keystone holding the finished building together. There is a sufficient number of practical examples showing that a unified currency policy determined by central authority is perfectly practicable in the absence of unified policies on problems of finance, social welfare, and wages. For example, individual states of the American Union show differences between each other that are at least comparable with those between Italy and the Federal Republic, without preventing the United States from having a single currency policy. Even within the small Federal Republic of Germany, conditions for competition are not at all completely harmonised — there are big differences between the various local rates of the "trade tax" ("Gewerbesteuer", a tax payable by any business to local authorities), in wage levels, in the transport "infrastructure" of different German regions. Within a European currency union, national differences in the systems of taxation, the social welfare policies, even in the budgeting methods of governments, would be reduced to economical advantages or disadvantages of given locations for carrying on business, and the part these play would not be much different from their role within the present customs union.

Cutting Down on Currency Autonomy

A sufficiently true portrait of any future European currency union can be drawn by a minimum of strokes: It is much more important to create a unified centre of decision making on currency policies than to introduce one single currency unit and identical European coinage as the universal legal tender for the Community.[1] A European central bank would have to assume tasks and responsibilities akin to those of the American Federal Reserve System, operating as the Community government's fiscal agent, holding the reserves of the commercial banks, to look after currency reserves, and later be responsible also for money and credit policies. The issue of European banknotes would only follow as a last step. The central banks of the European states would be reduced to tasks similar to those of

1 Cf. for a discussion of this question: Sieghardt Rometsch, "Monetäre Integration — das Problem einer Währungsunion im Gemeinsamen Markt" (Monetary Integration — the Problem of Currency Union in the Common Market); published by Knapp Verlag, 1968, p. 135 et seq.

the present Länder central banks in the Federal Republic of Germany. No doubt, it is not possible to call into being a European currency authority with such broad responsibilities overnight, but its creation ought to be the aim.

It will, however, be necessary to make a start now, by persuading the governments of all EEC partners to lay down, by formal joint decision, fixed rates of exchange between the European currencies, which must also be fully convertible against each other, and be prevented forever from fluctuating between upper and lower "points of intervention". Such a step means that the independent currency policies of the six partner countries must be strictly limited or even be made to disappear. It appears tc me imperative for the politicians to make up their minds quickly to take this step, for willingness to arrive at an agreement of such far-reaching importance is much greater now than it had been before the French crisis and than it may very well be eighteen months hence when France will be out of the wood economically.

Institutional Pre-conditions

There is no lack of institutions which might evolve into the foundations of a European currency union, and the possibilities of operating jointly are much better than they appear at a first glance, better, at any rate, than in other fields where harmonisation is needed, e.g. in social welfare or in taxation.

Among the institutions of which a movement towards a currency union might make profitable use, there is the Committee of Central Bank Governors which has been in existence for many years, adjusting those banks' policies, and regularly exchanging information on the decisive trends of credit policy and on important measures intended to be taken by central banks. Then there is the Currency Committee under Article 105 of the Treaty of Rome, which has to watch the currency and financial affairs of member states and of the Community as a whole, to record the overall flow of payments between member states and between them and the outside world, and to report on it at regular intervals to the Council of Ministers and the Commission of the EEC. The financial affairs of every member state are "scrutinised" at least once annually by the Currency Committee. Its brief was extended in mid-1964, to take over adjusting the member states' exchange rates against each other, as well as their international currency policies. These two bodies could undoubtedly serve as a sufficient nucleus for a European Federal Reserve System.

Functional Pre-conditions

It is, however, more important to provide for functional prerequisites than to set up new institutions. In this respect, one of the most important foundation stones for a European currency union has already been laid: the system of managed marketing of European farm produce has, at the same time, stabilised the exchange rates of the national currencies of all EEC members against each other. The system of agricultural prices as agreed within the EEC is incompatible with fluctuating rates of exchange for the European currencies. Even occasional changes in the relative value of these currencies, devaluation or revaluation, have become virtually impossible or, at least, extremely difficult because any fluctuation in the rates of exchange will immediately affect the guaranteed income of European farmers through the fixed relationship between prices for all farm produce. The accounting units used by the experts of agricultural market management may already be described as the precursors of a unified European currency.

To build a currency union, immutable rates of exchange for the currencies to be unified are indispensable. Doing away with the rates of exchange as determinants of international trade, at least within the EEC, would mean—since their trade policies have given up their instruments for influencing the flow of imports and exports, except for bad emergencies—that the governments of all the EEC countries cannot but harmonise their economic, financial, and anticyclical policies. A common currency policy for Europe would transform this objective necessity into actual compulsion.

Harmonisation Speed-up Possible

As we have seen, much progress towards a currency union has already been made. In my view, we need not wait until further or even all the desired harmonisation has been successfully achieved. On the contrary, I believe that setting up a currency union will speed up harmonisation that makes such slow progress under normal conditions. The suggestion that the currency union could become the driving force towards full economic union has never been sufficiently considered but I think it is well worth starting a discussion on the problem whether the differences of "location" described earlier on might not be levelled out very rapidly under a unified money and credit policy for the entire EEC area, so that the automatic flow of money and capital can lead to filling-in the differences between local rates of interest. Very soon, we would then see that much-vaunted national budgeting sovereignty will indeed be hemmed in by certain boundaries: every budget deficit could then only be covered from liquid funds whose volume would have to be mutually agreed. The possibilities for straying from the path of virtue would be very limited. This means that a jointly agreed money and credit policy would operate as a framework within which everybody would have to remain. Once this framework has been built, within which the market forces have free play, this will make it soon abundantly clear how impossible it is to levy different taxes on identical operations, and how absurd it is that financial institutions have to operate under varying investment rules. Such differences would then be flattened out by the evolutionary flow, and its work would be completed much more quickly than laborious talks and negotiations between experts.