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The First Steps to European Monetary Co-operation, 1968 to 1981

French policy on monetary co-operation and integration in Europe prior to 1968

Different French governments supported European monetary co-operation, and even integration, from the nineteenth century. The French sought the creation of the Latin Monetary Union in 1865 for a combination of economic and political reasons which included the rise of Prussian economic and military power (Dyson, 1994, pp. 26–8). While seriously disrupted in 1878, the Union continued formally until March 1929. After World War II, the European Payments Union was a successful form of monetary co-operation, essential for French and European reconstruction and economic growth and an important step towards improved economic co-operation (Lynch, 1997, pp. 122–5).

During the 1950s, the French did not see the co-ordination of member state economic and monetary policies as a crucial factor in the establishment of the Common Market. The French and the other Community member states believed that the successful functioning of the IMS throughout the 1950s made efforts at the European level unnecessary. Moreover, the French supported the general consensus that existed on monetary policy in favour of international co-ordination and against European level co-ordination which would have excluded the dollar and pound (Tsoukalis, 1977, p. 51).

Nonetheless, certain provisions of the Treaty of Rome recognize the importance of some form of economic and monetary policy co-ordination to ensure the smooth functioning of the Common Market (Articles 103–109). However, despite these provisions and the creation
of the Community Monetary Committee as a consultative body to help co-ordinate monetary policies, little co-ordination took place. During the first decade of the Common Market, most proposals for increased monetary co-operation came from the Commission, the new Monetary Committee and the European Parliament – for example, the European Reserve Union of January 1959. The Commission presented a bold, albeit vague, proposal for the creation of a parallel European currency in January 1965, but this was largely ignored. Between May 1964 and January 1968 there was an almost complete lack of progress in the monetary field at the Community level. Bloomfield (1973), among others, claims that European countries were content with the prolonged monetary stability of the period due to the continuing payments surpluses and the mounting reserves of EEC member states. However, de Gaulle’s determined opposition to the development of any new European policies was an important factor discouraging Commission activity.

Prior to 1968, French interest in European monetary co-operation and integration – to the extent that it was present – was due principally to negative international monetary power motives: to limit the impact of dollar fluctuations upon the stability of intra-European parities. Within the Bretton Woods system, each participating currency was allowed to fluctuate up to 1 per cent on each side of its dollar parity. This meant a possible 2 per cent fluctuation between two European currencies, which the French and other participating European countries found unacceptably large. They therefore signed the European Monetary Agreement in 1955, which, upon entering into effect in 1958, established ± 0.75 per cent fluctuation margins for participating European currencies. Until 1968, however, intervention by European central banks in order to respect these margins was minimal given the general stability in parities.

The Agreement also symbolised improved de facto French economic and monetary co-ordination with the European partners. Relatively high French inflation during the mid-1950s and an overvalued franc led to French reluctance to accept the Agreement’s provisions which would render all participating European currencies freely convertible (for non-residents) with the dollar. The 1958 Pinay–Rueff stabilisation plan ensured French participation. However, the French, under de Gaulle, opposed the more far-reaching proposals for monetary co-operation of the Commission, the Monetary Committee and the European Parliament. They argued for momentary co-ordination only when irked by unilateral German action – the expression of minor European power motives – such as the mark/guilder revaluation of 1961.