History of European monetary intergration - from 1945 till 1979 and European Monetary System

Turić, Stipe

Faculty of Law

Chair of Economy

Stipe Turić

HISTORY OF EUROPEAN MONETARY INTEGRATION – FROM 1945 TILL 1979 AND EUROPEAN MONETARY SYSTEM

Master Thesis

Supervisor: prof. dr. sc. Ozren Pilipović

Zagreb, April 2023.

Izjava o izvornosti

Ja, __Stipe Turic___(ime i prezime studenta) pod punom moralnom, materijalnom i kaznenom odgovornošću, izjavljujem da sam isključivi autor diplomskog rada da u radu nisu na nedozvoljeni način (bez pravilnog citiranja) korišteni dijelovi tuđih radova te da se prilikom izrade rada nisam koristio drugim izvorima do onih navedenih u radu.

____

(potpis studenta)

Table of contents

List of Aberivations

BIS	Bank for International Settlements
CAP	Common Agricultural Policy
CU	Customs Union
ECA	Economic Cooperation Agency
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDC	European Defense Community
EEC	European Economic Community
EIB	European Investment Bank
EMA	European Monetary Agreement
EMCF	European Monetary Cooperation Fund
EMS	European Monetary System
EMU	Economic and Monetary Union
EMUA	European Monetary Unit of Account
EPC	European Political Community
EPC	Economic Policy Committee
EPU	European Payment Union
ERM	exchange rate mechanism
ERP	European Recovery Program
MCA	monetary compensatory amounts
MTFA	Medium Term Financial Assistance
NATO	North Atlantic Treaty Organization
OEEC	Organisation for European Economic Co-operation
STMS	Short Term Monetary Support
UK	United Kingdom
US	United States
USA	United States of America
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
VSTF	Very Short Term Financing Facility
WWII	World War II

1 Introduction

Looking at the European Union today, with all the nations it gathers, the third-largest economy in the world, common currency, all the institutions, parliament, courts, legal system that goes beyond and over national legislation, political impact in global maters, and so on, one could easily forget that all those achievements were part of the process lasting more than half a century[1]. And even easier than that, is to forget that in last century the same continent was hit by the two most devastating wars human civilization has ever seen, and that in centuries before it was a war playground for various kings, families and nations, in their attempts to "unify the Europe under single banner". How we got from there to here, is the fundamental question this paper asks, and attempts to give a fraction of the answer in the form of economic integration.

While in the Middle Ages kings and lords fought for petty gains, new discoveries brought new riches to the continent, which along with the emerging renaissance, gave a new outlook on politics. These factors became fuel for new attempts of political integration in Europe. Or, as some would call them, wars. The Habsburgs controlled half of the continent through dynastic marriage, and half the world, one might say. The French tried multiple times to make whole Europe France, and so did the Germans, just to show their western cousins they are capable of the same (just given the time to unify themselves first). The British, as British do, didn't care much for the continent if they were not directly threatened. All these attempts rarely had much long term impact, borders rarely changed for much, and outlines of modern European nations were drawn very early on. No political attempt succeeded in much, other than in being remembered as a worse great war than the one before.

As if people don't learn from history, which they rarely do, the 20th century brought the worst wars imaginable. The Industrial Revolution, revolutionized not just economic processes, but also war itself. Old ideas of great unification received new steam, and the resulting two World Wars left the continent in ashes. After seeing nations so desperate and countries destroyed, finally, some people that learn from history emerged to the political scene.

This paper, in part, is a story about people who didn't want to repeat old mistakes. People who had the political will to do things differently, while at the same time being pragmatic and respecting old interests, old borders, while aiming to achieve something new. Sometimes, they met success with chance, but the goal was always clear, Europe unified in

[1] Rome was not built in a day.

peace. This time by a different method, economic prosperity. How it all began, from the ashes of destruction, begins with events happening over the Atlantic ocean.

2 *Europe in the Bretton Woods system (1944-1973)*

While the World War II (WWII) was still raging, but it was clear Allied forces will prevail in this conflict, plans for postwar monetary world order were concocted by policymakers and leaders of western Allied nations[2]. The whole world, destroyed by war in every imaginable way, was facing a daunting task of reverting from a military economy back to a civil, peacetime economy. World monetary order would be a first step in that recovery process. Memory of the period between the two wars was still vivid, and the new system was meant to fix all the mistakes of the past. The system born in Bretton Woods USA, under the formal umbrella of the United Nations, brought a time of unprecedented[3] stability, resulting in postwar recovery happening faster than anyone expected.

2.1 *Building the frame, the Bretton Woods*

The main aim of the Bretton Woods agreement was to bring currency stability in the international trade, helping reconstruction of the economy after the WWII. Memory of the classical gold standard, and inter war period of floating rate and gold exchange standard - along with raging battle for currency supremacy between the US Dollar, Japanese Jen, German Mark, Pound Sterling and French Frank – made the idea of an adjustable peg seem as a reasonable solution to the problem[4].

Wartime negotiations between the USA and UK from 1941. to 1944. led to two proposals for a new world monetary order, each defined by its nation's political and economic concerns. Motives for these suggestions were two opposites. The USA had big deposits of gold and was emerging as the biggest economy in the world, while the UK melted their gold deposits during the War, heavily borrowed from the Commonwealth and their economy was severely damaged as a result of the war. For the USA team, led by Harry Dexter Ward, the key institution was to be the United Nations Stabilization Fund with international unit of account „unitas" worth 10 gold USD – to which every member would fix and maintain par value. The British delegation led by John Maynard Keynes proposed the introduction of a supranational central

[2] Neal, Larry. The Economics of Europe and European Union. Cambridge University Press, 2007., p. 25.
[3] Not to say inflation was nonexistent or that reasons for economic growth were various. Comparing it to what happened before, and what results it gave, no one can deem it as a bad period in the world economy.
[4] Bordo, Michael D. The Bretton Woods International Monetary System: A Historical Overview. University of Chicago Press, 1993., p. 5.

bank, the International Clearing Union, along with an international currency „bancor“ that would have nominal value fixed to gold and every other national currency would set its par value in relation to bancor[5]. Alto end result highly favored the position and interests of the USA, negotiations were based on the same outlook on the prewar period, a common stance on the importance of full employment and liberal multilateral payments system, freedom from immediate political concerns and mutual respect between the experts[6].

The agreement in Breton Woods was not so clear how the system should actually work. Architects made all currencies equal – earning that each country would keep parity with other currencies. But in fact, since the USA was the only country that pegged its currency to gold, every other country declared parity with the US Dollar, and obliged to keep it within 1% margin[7]. Agreement was reached, but the issue was far too big to be solved within a few years - the transition from war to peace took much longer. Two main issues appeared, the dollar shortage and bilateral agreements between countries. Those issues, led to changes in how the system functions. It started up as an adjustable peg (from 1946. to 1958 – pre convertible period) and ended up as a de facto system of fixed exchange rate (from 1959. to 1971. – convertible period).

2.2 Dollar shortage and bilaterism

The USA accumulated almost two-thirds of the world monetary gold stock by the end of the WWII. This is in part due to Roosevelt's devaluation of the dollar in the 1930s and capital flight from Europe. War only exacerbated the issue, since the Allies financed their expenditures with gold, leading to total depletion of their gold stock. The deficit of OEEC countries was almost the same as the surplus of the USA in 1947. After setting up the Bretton Woods system, European countries declared the same parity value towards US dollar as it was before the WWII, hoping wartime inflation and loss of production won’t impact their competitiveness, but it turned out this only aggravated the dollar shortage[8]. Wartime debt and loans shortly after the war also didn’t help the situation. For instance, the UK incurred debts to the USA and Canada of 1 billion US dollars by the end of WWII and took a loan of 4.4 billion from the USA and 1.1 billion from Canada in 1947[9]. European countries faced a twin fold issue, they couldn’t increase earnings from services to foreigners, thus they needed to expand their commodity exports,

[5] Ibidem, p. 33.
[6] Ibidem.
[7] Ibidem, p. 37.
[8] Ibidem, p. 41.
[9] Neal, 2007., p. 23.

which again led them towards the USA. Their previous import markets, Eastern Europe, Germany and colonial territories were gone, which also increased their dependence on US dollar area. This scarcity of earnings in convertible currencies (at that point only US dollar) forced European countries to restrict imports and control trade through bilateral agreements (along with quantitative restrictions and exchange controls). In a situation like this, what needed to be done was reducing demand for US dollars, increasing supply and removing or at least rising price ceiling on dollar – solution came in the form of Marshall's plan and the European Payment Union[10].

2.3 The Marshall plan (the European Recovery Program) and the European Payments Union

The European situation described so far – unavailability of capital, food imports consuming limited foreign exchange, stagnant trade and dollar shortage – was an economic catastrophe[11]. The US Secretary of State George Marshall in a speech at Harvard University in 1947. suggested that the US „would formulate a plan" to respond to these conditions. Marshall relied on his initiative, agreement to the plan by European governments and cooperation between Truman's Administration and the US Congress. On meeting in Paris (July 12, 1947) European governments responded to the initiative and created the Committee of European Economic Cooperation (CEEC), which then formulated a proposal for aid. The US State Department responded to the proposal, conditioning it on commitment to monetary and financial stability, reduction of trade barriers, additional dollar credit sources (World Bank), establishing an international organization for implementation and coordination of the plan[12]. In the end, it all culminated in unprecedented cooperation between the Administration and Congress, resulting in the European Recovery Program (ERP). The Plan originally meant to last from April 1, 1948, until June 30, 1952, and poured almost 12.5 billion US Dollars into more than sixteen European countries[13].

The OEEC was a European joint multilateral international organization that pledged to the recovery program, coordinated its assistance allocation and guided its members to fulfilling it. To achieve all this, the OEEC developed analyses of economic conditions for each country and formulated a Plan of Action that directed investment programs and led joint adoption of

[10] Ibidem, p. 24.
[11] Congressional Research Service. The Marshall Plan: Design, Accomplishments, and Significance. 2018., p. 2.
[12] Ibidem, p. 4.
[13] Neal, 2007., p. 25.

policy reforms, such as removal of trade barriers[14]. On the other side of the Atlantic, congress established a new agency to implement ERP, called the Economic Cooperation Agency (ECA). Among all other things regarding the ERP, to encourage inter Europe trade and independence from the US dollar, ECA set up a payments plan for member states already in 1948. This model was formalized to be the European Payment Union (EPU).

The EPU was created by the OEEC countries on 19th September 1950 as a central clearance and credit system for settlement of all payments and transactions among its members. It was meant to run for 2 years, with yearly renewability. It ended up lasting till 1958. Working on basic principles of commercial clearing house, each member would clear his debt or credit at the end of each month with the agent (Bank for International Settlements - BIS). Settlements were made in US dollars, gold or credit. The USA provided at first 350 million US dollars and an additional 100 million to assist in initial difficulties. The EPU effect simplified bilateral clearing and paved the way for real multilateralism[15].

Significant changes happened with trade restrictions. In 1949 the OEEC requested the elimination of quantitative import restrictions, resulting in a 50% reduction by the end of 1949 and 75% by February 1951. In the same year, the OEEC set up rules of conduct in trade under the Code of Liberalization of Trade and Invisible Transactions. All that resulted with double increase in the volume of trade in 1951 compared to 1947[16].

The overall economic impact of the Marshall Plan and EPU was impressive. Industrial production by the end of 1951 was 55% more than four years earlier, agricultural production was up 37%, and total average GDP rose 33% from 1948 to 1952[17]. Most importantly, US dollar scarcity was solved, Marshall Plan increased the supply of US dollars, while EPU effectively reduced demand. In 1947 deficit towards US dollar area was almost 9 billion US dollars and gold, by 1949 it dropped to 4.5 billion US dollars, and by the first half of 1953 current balance was reached[18].

The purpose of ERP was not just about fixing the European economy, it had a clear political goal. In 1949, an amendment to the ERP Authorization Act stated that unification of Europe was a policy of the USA, it never specified which, political or economic, but both were

[14] Congressional Research Service. 2018., p. 10.
[15] Bordo, 1993., p. 42.
[16] Congressional Research Service, 2018., p. 11.
[17] Ibidem, p. 16.
[18] Bordo, 1993., p. 40.

discussed in conference. Regardless, it achieved both. The USA emerged as the biggest economy from the WWII and had a strong presence in Europe, seeing herself as a model for unified postwar Europe, with individual countries equating states. The OEEC fostered that idea of unified Europe and helped it grow, by bringing European leaders, politicians, experts all together to one forum. That spirit of cooperation was, what many claim, crucial for further developments[19].

2.4 Schuman's plan and ECSC

By the end of the war, Germany was divided into occupation zones. Early on, in 1945 and 1946, little progress was made towards political stability in Western Europe. On the other hand, the USSR established itself in countries under its control. There was fear of communism spreading, with real possibility that it will take root in Italy and France. The UK and US realized that an economically strong Germany would be crucial to defending the concept of liberal democracy in Western Europe. They merged their occupation zones in 1947. France, that hopped to gain permanent control over the industrial zones of Ruhr and Saar, did the same in 1948, resulting in the German constitution in the same year[20]. In 1949, the Federal Republic of Germany was established.

New Germany was seen by the French as a possible ally to balance US-UK influence on the continent, along with ensuring that new reindustrialized Germany becomes an economic partner rather than a military adversary. For the Germans, at that point, it was all about becoming a „normal“ nation again. The caveat was that no one, except Washington, not even Germans, were comfortable with industrialization and rearming Germany. Pressure due to the situation with the USSR was amounting, and by 1950 it was clear something had to be done.

In the spring of 1950. Robert Schuman, the French Foreign Minister, was handled a request by his UK and US counterparts – to give a proposal for reintegrating Germany into the Western block. Inter government meeting was scheduled for 10th May 1950. On the proposal of Jean Monnet, with the support of the German Chancellor Konrad Adenauer, Robert Schuman gave his declaration at a press conference on 9th May 1950[21]. Declaration that shocked contemporary diplomacy and changed Europe fundamentally.

[19] Behrman, Greg. The Most Noble Adventure: The Marshall Plan and How America Helped Rebuild Europe. Free Press, 2008., p. 219-224.
[20] Baldwin, Wyplosz. The Economics of European integration. McGraw-Hill Education. 2009., p. 8.
[21] Fontaine, Pascal. A new idea for Europe: The Schuman declaration 1950-2000. Publications Office, 2009., p. 5.

The idea of the declaration was to build de facto solidarity based on a set of principles:

- Enmity and rivalry between France and Germany should be eliminated
- Focus on the coal and steel industry
- Merging of economic interests would pave the way to economic community
- High Authority's decision is binding and enforceable on member countries

The declaration let to an almost immediate conference of the governments in Paris on 20th June 1950, which along France and Germany, Italy and Benelux countries attended the meeting. The Treaty was signed on 18 April 1951, ratified, and the European Coal and Steel Community (ECSC) was born on 10th August 1952.

The spirit of community, peace, solidarity and of common interests is shown in the declaration, and later in the forming Treaty – motives still remain debatable. The coal and steel industry was viewed as the core of war industry, as well as basic industry for peacetime economy, thus its importance is twin fold. Combined with that, comes the notion that France never suggested anything communal until all options of gaining control over Ruhr and Saar coal were lost[22]. Whatever are the motives, the pendulum has been irreversibly swung, and Europe was on the road to integration, both economic and political.

With ECSC concrete results in the domain of coal and steel industries pricing, productivity and trade, its most important legacy is as a platform for further integration. It was a springboardfor debate over the next step of integration European Economic Community (EEC)[23].

2.5 European Economic Community and European Monetary Agreement

The early 50s were turbulent times. Tensions with the USSR grew ever higher over the years after WWII, and it was getting clear that former allies might become not just ideological adversaries. The 1950s saw the beginning of the first proxy war, the Korean one. This prompted a change in US policy towards the position of West Germany in NATO. Rearming Germany was a proposal that was not well accepted by other European nations, so a compromise had to be found[24].

[22] Lynch, Frances. France and European integration: from the Schuman plan to economic and monetary union. Cambridge University Press, 2004., p. 5.
[23] Neal, 2007., p. 37.
[24] Arestis, Philip; McCauley, Kevin; Sawyer, Malcolm. From Common Market to Emu: A Historical Perspective of European Economic and Monetary Integration. Levy economics Institute, 1999., p. 4.

After the success of the ECSC initiative, Jean Monet proposed a new initiative that will bring further supranational political integration and solve the issue of German rearming. The Six considered proposals for the European Defense Community (EDC) and the European Political Community (EPC). Both these revolutionary proposals were abandoned after the French parliament rejected the EDC. Subsequently, rejection of EDC meant the end to the EPC plan as well. This resulted in changing course back to economic integration to achieve political goals[25].

The economies of the Six went through the so-called "post-war miracle", at least overall. West Germany, Italy and the Netherlands had high export growth, resulting in balance of payment surpluses, while France and the UK repeatedly ran into balance of payment issues. This led France to devalue the Franc, keep import restrictions and exchange control. The UK, at the same time, worked on restricting home demand, including capital. Both strategies reduced investments, reduced export competitiveness and kept the growth rate slow. In this scenario, the idea of customs union in ECSC benefited export leaders and the laggards. France and Belgium could imitate the success of Germany, Italy and the Netherlands, while they could exploit the markets that they haven't fully penetrated, to continue their export boom[26].

The process began at the ECSC Foreign minister conference in Messina in June 1955, where representatives of Benelux countries proposed an Atomic Energy Community and a European common market for all goods and services[27]. The Spaak Committee started drafting The Treaties of Rome in 1955 till April 1956, and the documents were signed on 25th of March 1957. Ratifications followed shortly after, and the European Economic Community came to life in January 1958.

Institutionally, EEC introduced changes compared to ECSC. Primary, Council is the main decision-making body, and secondly Commission initiates decision-making and serves as executive body. When it comes to economic and monetary cooperation, they go on three levels: Finance Council (when Council is filled with Ministers of Economy and Finances, ECOFIN), specialized committees and groups of experts. The first level is the Finance Council, the second level is filled with three relevant committees – the Monetary Committee, the Committee of Governors and the Economic Policy Committee. The Monetary Committee (set up by article 105) was composed by two members chosen by the Commission and two members proposed

[25] Baldwin, 2009., p. 15.
[26] Neal, 2007., p. 43.
[27] Arestis; McCauley; Sawyer, 1999., p. 5.

by each member state (one representative from the central bank and one from the Finance Ministry/Treasury) – thus it became an institution for matters of monetary affairs, where members of Treasury and Finance Ministry met within EEC framework. The Committee of Governors was created by a decision of the Council of Ministers on 13 April 1964. Members were governors of central banks from member states, that met monthly in Basel at BIS (which provided administrative services). It had an important role in the time when the snake system was operational[28]. Lastly, the Economic Policy Committee (EPC) was established by the Finance Council on 18 February 1974 as a merger of three previously existing committees, which did the same thing as EPC, and that is short and medium term coordination of economic policies (which was extremely important during EMS negotiations). The third level in this scheme are alternates of the Monetary Committee and the Committee of Governors, including their (alternates) groups of experts. Alternates performed groundwork for their parent committees, while expert groups did more technical work – like harmonization of working methods of monetary authorities or monitoring of financial developments. Along all these new institutions it is worth mentioning the European Investment Bank (EIB) that was also created by the Treaty of Rome in 1958, which finances projects, and still does, related to balanced economic development of EEC member states[29].

As a legal document, economic and monetary integration is covered in articles 103 to 109 of The Treaty, although never explicitly, it is more a declaration of principles and of monetary consultations[30]. Since it was the main project of the EEC, The Treaty explicitly established a customs union (removal of all tariffs and quotas on intra-EEC trade and setting up a common tariff on imports from nonmember states), along with free labor mobility, free trade in services, capital market integration and range of other common policies. The importance of free movement of capital and capital market integration comes in hand with Mundell's "trilemma", which for the sake of EEC and future integration is clearly one element out of control of national governments, and a fixed indicator in "trilemma". Regarding monetary policy, some claim[31], that the goal of economic and monetary union was implied in Article 2:

[28] As we will see further in the work.
[29] Mourlon-Druol, Emmanuel. A Europe Made of Money: The Emergence of the European Monetary System. Cornell University Press, 2012., p. 19-21.
[30] Ibidem, p. 21.
[31] Stewart, William J. The European Monetary System. Quarterly Economic Commentary, 4 (3), 1979., p. 39.

„The Community shall have as its task by setting up a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between Member States belonging to it."

On the other hand, opinions diverge[32] from one above on what the Treaty of Rome said about macroeconomic and monetary policy. It is explicit that pursuit of overall equilibrium of balance of payment, confidence in the currency, stable prices and high level of employment should be pursued as stated in Article 104. Also, a stable exchange rate is demanded by Article 107, along with coordination of economic policies through government and central bank cooperation in Monetary Committee.

The best explanation of these seemingly opposite opinions on the impact of the Treaty of Rome on macroeconomic and monetary issues, is that at the time, the Bretton Woods system was still a global monetary system. While it functioned, there was no need for the Treaty of Rome to regulate explicitly, or be interpreted in light of economic and monetary integration. We will see in the future, as it failed, everything implicit and explicit became basis for new interpretations, for new macroeconomic policies of EEC.

The existence of the Bretton Woods allowed the EEC to be focused on the customs union (CU) and common agricultural policy (CAP), which were the main projects since its inception, thus pushing monetary issues aside for the time being. What remained of macroeconomic and monetary issues, was seen through the prism of possible balance of payments issues which could threaten the customs union and common market, since that was the main goal of the EEC[33].

2.5.1 European Monetary Agreement

Additionally, in the field of monetary policy, there was an upcoming change in EPU. The initiative for major change to the EPU system came from the UK, when in March 1954 they presented the issue of sterling convertibility before OEEC[34]. The subsequent negotiations by OEEC nations led to the signing of the European Monetary Agreement (EMA), which was

[32] Arestis; McCauley; Sawyer, 1999., p. 7.
[33] Maes, Ivo. Macroeconomic and monetary policy-making at the European Commission, from the Rome Treaties to the Hague Summit. NBB Working Paper, No. 58, National Bank of Belgium, Brussels, 2004., p. 4.
[34] Jones, Dallas. The European Monetary Agreement, The European Payments Union, and Convertibility. The Journal of Finance, 1957., p. 333.

supposed to enable a high level of trade liberalization whether an individual country's currency is convertible. It worked as a multilateral system of settlements in member currencies, by offering interim financing between monthly settlements. It was not so much a "payment system" but more of a "code of behavior" for the time when currencies become convertible again[35]. Countries kept their exchange rates towards US dollar within 0.75% on both sides of parity. This was a "stand by" agreement until OEEC members made their currencies convertible again.

2.6 From 1958 to 1971 - Breton Woods in full swing

Establishing the EEC was a crucial moment in the European integration, it provided structure, goals and institutions to pursue such task as was economic and political integration of European nations after WWII. What has been done on a small scale with ECSC, now could be transferred to the whole economy. In the upcoming decade or so, we will see a shift in global political and economic paradigm, move from post WWII unification and stabilization policies, towards new "cold" wars, move from the economic miracles of the 50s and 60s towards instabilities, crisis and new economic solutions. A goal for West Europe was set, and work on it began immediately.

2.7 EEC and Customs Union

The main idea of the Treaty of Rome was establishing the common market, which was to be achieved through a series of measurements, articulated in Article 3 - mainly elimination of customs and quantitative restrictions on intra ECC trade and establishing common tariff and commercial policy towards third countries[36].

Most of the first year was spent setting up administration in Brussels. Once set up, work on the Customs Union (CU) started almost immediately. Removal of tariffs was to have three stages of four years each: 1958-1961, 1962-1965, 1966-1969. There was a possibility of a three-year delay, resulting in a maximum 15 years liberalization period. Surprisingly, import quotas were removed by 1961 and tariffs by July 1968. This success ahead of the plan is mostly due to a period of unprecedented economic prosperity in the 1960s, which additionally benefited from the establishment of ECC and growth of its internal trade. Unemployment was record low, as low as 2.5%, and incomes doubled or tripled (West Germany, Italy) compared to 1950[37].

---

[35] Ungerer, Horst. A concise history of European monetary integration: from EPU to EMU, Quorum, 1997., p. 29.
[36] Arestis; McCauley; Sawyer, 1999., p. 7.
[37] Baldwin, 2009., p. 16.

The main goal of the CU is changing the trade pattern of member countries. In 1958, two thirds of imports for member countries were coming from outside of EEC, while in 1990 two thirds of imports were coming from within the customs union. Keeping reasons aside, and detail analysis of every member state, this is presumably enough to prove CU as a success and base for further economic integration.

2.8 End of EPU and currency convertibility

In the 50s, EPU made a significant impact on the US dollar shortage reduction[38]. Since this goal was achieved by all estimates in mid 1952, European nations could move from bilateralism to full convertibility. It came to an end when on 27th December 1958, the majority of EPU members accepted Article VIII of the IMF Articles of Agreement and thus introduced external convertibility of their currencies[39]. Thus, EPU entered the liquidation process and EMA started its operation. The Bretton Woods system, for the first time, started functioning in its full capacity, as it was envisioned. From here on, the EEC functioned in a system of fixed exchange rate with the common currency, the US dollar[40].

2.9 Common Agricultural Policy

The question of agriculture loomed over Europe after WWII. After experiencing the horrors of the War, and its aftermath that brought hunger and general lack of food products – the problem of agricultural self-sufficiency was a high priority in European integration projects. Treaty of Rome in Article 40 stipulated urgency regarding agricultural policy in EEC, but high divergence and different policies within member countries resulted in the process of creating the Common Agricultural Policy (CAP) finishing in 1962. CAP was meant to achieve objectives laid down in Article 39:

(1) to increase agricultural productivity by promoting technical progress and

the optimum use of production factors;

(2) to ensure a fair standard of living for the agricultural community by increasing its per capita income;

(3) to stabilize markets;

(4) to assure the availability of supplies; and

[38] Neal, 2007., p. 45.
[39] Ungerer, 1997., p. 28.
[40] Neal, 2007., p. 95.

(5) to ensure reasonable consumer prices.

Objectives (1) to (4) aimed to achieve self-sufficiency in agriculture, while point (5) was left vague as much possible, so it is not in conflict with the above-mentioned four[41].

The main tools of CAP in achieving self-sufficiency and increasing agricultural exports are price supports and other market interventions. The price supports scheme sets up the price for every commodity in CAP to be the same in the whole Community, additionally to that, there is external protection and flat-rate support for certain goods. But most importantly regarding CAP and monetary policies, prices of many agricultural goods were fixated on a common unit, which was defined as the gold content of one US dollar[42]. This will have a significant impact when future crises happen, and the EEC policies around the time of breaking of the Bretton Woods system.

2.10 EEC is here, now what? Finally, Breton Woods

The year 1958 represents a landmark in the post WWII reconstruction of (western) Europe. Establishing EEC, the introduction of CU and CAP, switching to convertibility within the Breton Woods system. The process that started even before the War ended, produced results everyone was hoping for. Institutional and economic integration has taken formal shape and gave beyond expectation economic results. How much of this economic miracle is the product of political decisions and framework, and how much is "just" the product of economies going back to peacetime production, is debatable. Nevertheless, the dream of Europe united, without hegemony, through peace and economic prosperity was closer than ever.

In the next ten years, the economies of France and the Netherlands joined the export-led miracle of West Germany and Italy, while the latter continued their growth even more. During the initial years of convertibility there was no need to pay much attention to exchange rates since all EEC currencies were fixated to the US dollar under Breton Woods, nor there was much necessity to push for a common currency, to which the Treaty of Rome gave little initiative in a situation of such monetary stability[43]. That's not to say that that monetary policy was absent from the EEC agenda, Robert Marjolin, who was previously Secretary-General of OEEC, was appointed European Commissioner for Economic and Financial Affairs – in this role he will have an impact on the future monetary integration[44]. Also, not to forget, in this period (from

[41] Ibidem, p. 65.
[42] Mourlon-Druol, 2012., p. 22.
[43] Neal, 2007., p. 95.
[44] Mourlon-Druol, 2012., p. 22.

1958 till end of 1960s) CU and CAP remained main projects of EEC, while further monetary integration was not in focus until necessity arose.

2.10.1 Talks about monetary policy

Formally not in focus, monetary integration was still “there”. Academic economists discussed the international monetary system widely - Friedman (1953) presented an argument in favor of flexible exchange rates, Triffin (1960) analyzed flaws of the Bretton Woods System, Mundell with his articles on “Holy Trinity - high capital mobility, fixed exchange rates, and independent monetary policy” and eponymous article on theory of optimum currency area (OCA) – all provided important insights on, at the time, functioning international monetary system, its flaws and possible changes. Incentives such as one by Monnet’s Action Committee for the United States of Europe called for monetary integration[45]. A fore mentioned Robert Triffin argued in his book "Europe and the Money Muddle" from 1957, that future EEC members should aim for monetary union[46].

2.11 Marjolin memorandum

After the failure of proposed defense and political alliance in Europe, the suggestion of Benelux countries to integrate based on a common market, kick-started the integration process and EEC was the result. It was a product of compromises on the current economic situation, mainly fueled by differences in French and German views and position. Germany was better off by all measures. It ran a surplus and low inflation, coupled with price stability high employment policy. It doesn’t surprise that this kind of economic concept was called “social market economy”. On the other hand, France had a trade deficit, higher inflation, war in Algeria, and ran a completely different economic policy, more in line with a state planned economy. The result of compromises between these two positions was the Treaty of Rome – where CAP was compromise for CU, and not much was said about macroeconomic and monetary policy, so to leave both sides to their own designs.

Already in 1958, the situationwas not optimal for the EEC. France started in dire straits economically and in May requested derogation from Article 32 (use of trade quotas or equivalent measures). The Commission didn’t approve that request, instead it gave a report on the macroeconomic situation and gave recommendations (under Article 108). But it was not enough to help, and in December De Gaule devalued the Franc, resumed orthodox policy and

[45] Arestis; McCauley; Sawyer, 1999., p. 8.
[46] Maes, Ivo, 2004., p. 9.

restored economic stability[47]. In 1961, another exchange rate realignment happened, with German Mark and Dutch Gulden.

The institutional response to these issues, of monetary policy, came in the shape of "The Commission's Action Program of October 1962". It was meant as a program for the second stage of EEC (1962-1965), in which every member of the Commission dealt with his area of responsibility (Economics and Financial Affairs were covered by Robert Marjolin). In this memorandum, the Commission strongly pushed for interpretation of the Treaty of Rome to imply progressive full economic, monetary and political union[48]. In the monetary policy chapter, Marjolin argued that monetary union could be the objective of the third stage of the Common Market (1965-1969). Argument was made that monetary policy is of vital importance for the Common Market as exchange rates fluctuations could disrupt trade flows, especially when it comes to agriculture. Monetary union was not just the way forward for the EEC, but necessary to protect CU and CAP from exchange rate fluctuations. The memorandum saw monetary union as a consequence of CU and CAP[49]. In current, second stage (1962-1965) Memorandum suggested consultation for all important monetary policy decisions, such as changes in discount rates, minimum reserve ratios, central bank loans, exchange rates changes, etc.

The memorandum had a mixed reception, part of economists and public, especially in Germany,saw it as „Planning without planned economy" (Plitzko, 1964). Governors of the central banks from member states were in favor of further monetary cooperation, and they supported the idea of the Council of Central Bank Governors as a committee of the Commission. But they remarked that monetary coordination is desired in a wider frame than EEC, and that without budgetary policy coordination monetary policy won't do much alone. Also, they already saw the international monetary system as the one that needs reform. In the end, the Action Plan suggests transfer of a big part of national sovereignty to the Community level. Against that kind of change, at the time, were both France and Germany.

Taking all this advice, the Commission adjusted its proposals, and submitted a new Recommendation to the Council, concerning „Medium-Term Economic Policy of the Community "on 26th July 1963. It had taken middle ground, stressing the role of the market as the best tool in allocation of available resources, need to strengthen and maintain competition,

[47] Ibidem, p. 14.
[48] Ibidem, p. 15.
[49] Ibidem, p. 17.

but at the same time emphasizing the role of the state in economic life through institutional framework, coordination and economic policies. This all was to set up a medium term economic program for the EEC. A month later, the Commission submitted a document in which it suggested the creation of two new committees, the Committee of Governors of the Central Banks of the Member States of the European Economic Community and the Budgetary Policy Committee. Along that suggestion came one regarding increase of the responsibilities of the Monetary Committee, especially in international monetary matters. These proposals were accepted in 1964 and three committees were created, two a fore mentioned and the Medium-Term Economic Policy Committee. All this was a far cry from monetary union, but it made crucial points that the Commission was an actor in the monetary area according to the Treaty of Rome, and through the Committee of Governors, the Commission got entrance and impact in the area of central banking[50].

2.12 The Barre Memorandum

As the international economic and monetary situation deteriorated in the second half of the 1960s, the Commission was worried that the EEC is at risk if member countries don't take a common stance. Special concern was again the situation in France, with pending devaluation and economic imbalances, which activated the safeguard clause. Thus, in February 1968, the Commission presented a secret „Memorandum on Community Action in the Monetary Sphere" to the Council. The purpose of this short and confidential document was to suggest further monetary integration within the EEC, in particular:

- Member States should declare that exchange rates would be adjusted only with prior mutual consent.
- The fluctuation margins should be eliminated.
- A system of mutual assistance should be established.
- A single European unit of account should be established.
- Concerted action in the international monetary institutions should be envisaged.

This proposal, that was along French ideas of "monetarism" came clashing with Dutch and German "economist" position, thus gained little traction. The crisis of the French Franc in May 1968 when France invoked safeguard clauses, didn't help either. In October 1968, Raymond Barre, as member responsible for Economic and Financial Affairs, defended the "economists"

---

[50] Ibidem, p. 17-19.

approach in the European Parliament, presenting EMU as the crowning act of economic and political integration.

These stances were later formalized in the so-called “Barre Memorandum” from February 1969. It emphasized the complexity of the Community’s position, containing both national and Community elements. This duality complicated the situation in the face of erosion of the US Dollar centered Breton Woods system, combined with the ongoing economic crisis. Achieved integration and dependence of Member States economies could be threatened by different economic policies of member states, in effect threatening customs union, common agricultural policy and the Community stability overall. Thus, the Commission proposed better macroeconomic coordination and the elimination of fluctuation margins between currencies of the Six[51]. This is presented in three main points:

a) convergence of medium-term economic policy – Main objectives here are economic growth, movement of prices and balance of payments.
b) coordination of short-term economic policies – Emphasis is on coherent short-term policy, so no Member State diverges from medium-term policies and goals. Main tools were to be reinforced and more efficient consultation procedures, with “early warning” system.
c) Community mechanism for monetary cooperation – consisting of one for short-term monetary support and one for medium-term financial assistance

The goals of the Barre Memorandum are much more pragmatic and modest than the 1962 Action Program. It had a two-pronged approach, both short-term and midterm economic policy coordination to avoid imbalances and increase convergence, coupled with a Community mechanism to alleviate foreign exchange pressure. Divergence in member states economies regarding inflation and balance of payments and lack of political will for anything more, mostly from De Gaulle’s France, were causes for such outcome. It managed to put together French and German ideas about “convergence of medium-term economic policies”, where French concern about medium term programming meets German notion of economic convergence of member states. The solution presented here highlights the Commission's concern about the economic situation in member states at that point, disparities in prices and costs, along with shaken confidence in the Bretton Woods system[52]. After extensive discussions between Commission

[51] Arestis; McCauley; Sawyer, 1999., p. 8.
[52] Maes, 2004., p. 21-22.

and Central Bank Governors, the Community Mechanism for Short-term Monetary Assistance was created in February 1970, as envisioned in the Barre Memorandum, despite initial resistance from Governors.

2.13 The Hague Summit and Werner Report

Trade expansion within the EEC between France and Germany meant continuous French deficit. This, along with difference in monetary policy between French mild inflationary and German policy of strict stability of prices, caused the first mayor revaluation of exchange rates within the EEC. With additional inflationary pressure from expansionary fiscal and monetary policy due to 1968 labor unions and student unrest (that caused capital flight from France[53]), major realignment was agreed between France and Germany[54]. In August 1969, France devaluated the French Franc, and then in September revaluation of the German Mark followed. Threatened by ongoing economic crisis, and new possible corrections of exchange rates, heads of the States and of the Governments met in Hague in December 1969 with the goal to relaunch European integration process, with gradual economic and monetary union (EMU)[55]. Several factors contributed to this “change of hearts”. The sudden death of Charles de Gaulle brought France a new European president, Georges Pompidou. At the same time, Willy Brandt became Chancellor of West Germany, who was a European federalist and pro-EMU. In the UK, Gaston Eyskens and Pierre Werner in Lichtenstein held the same views as their French and German counterparts. On the global level, skepticism about the future of the Bretton Woods system of fixed exchange rates became palpable, combined with intra EEC currency revaluations, Bretton Woods was seen as a threat to the success of CU and CAP (especially to CAP since it was dependent on stability of US Dollar exchange rates). Willy Brand, who was a member of Jean Monnet’s Action Committee for the United States of Europe, approached the Committee in preparation for The Hague Summit. In turn, Monnet approached Trifin, who drew up a proposal for a European Reserve Fund. Raymond Barre didn’t share the enthusiasm for the EMU, feeling that the time was not right, since divergences in economic policy and performance of member states would not allow it.

At the summit, as requested by the Heads of State and Government, the Council was tasked to create a plan regarding economic and monetary union. For this purpose, a special committee was created, chaired by Luxembourg prime minister Pierre Werner, that produced a

[53] Bordo, 1993., 78.
[54] Neal, 2007., p. 96.
[55] Arestis; McCauley; Sawyer, 1999., p. 8.

report in October 1970, commonly known as the Werner Report. The main point of the report was that EMU is to be achieved in three stages by the end of 1980. This goal would be followed with institutional changes to complement its fulfillment, a center for decisions in economic policies and Community system for the central banks (this came with implication of changes in EEC Treaty)[56].

"A monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital. . . monetary union. . . may be accompanied by the maintenance of national monetary symbols or the establishment of a sole Community currency. From the technical point of view, the choice between these two solutions may seem immaterial, but consideration of a psychological and political nature militate in favor of the adoption of a sole currency which would confirm the irreversibility of the venture" (Werner Report, 1970, p. 5)

The Werner Report sets EEC irrevocably towards EMU, from there on, it was just a question of how and when. It recommended the development of the European Currency Unit (ECU), a centralized European credit policy, a unified capital market policy, a common policy on government budgeting and the gradual narrowing of exchange-rate fluctuations[57]. Narrowing of exchange rate margins was envisioned to be the first out of three phases towards monetary union. The first phase, from 1971 to 1973, would be directed towards laying the foundations of economic policy coordination and institutional development for that coordinated economic policy. The second phase would consolidate phase one. At this point, changes to exchange rates could only be made with explicit agreement of members, economic policies would be coordinated for convergence, common policy on government budgeting and progressive narrowing of fluctuation bands would be achieved. The European Monetary Cooperation Fund (EMCF) would be created to manage part of state reserves and to provide short and medium term financial intervention. Other institutional impact, at this stage, would be kept at a minimum. Stage three would bring a community central bank to life (and centralized monetary policy with it), and irrevocable fixation of exchange rates[58].

---

[56] Maes, 2004., p. 23.
[57] Kondonassis, A. J; Malliaris, A. G. Toward Monetary Union of the European Community: History and experiences of the European Monetary System. The American Journal of Economics and Sociology, Vol. 53, 1994., p. 293.
[58] Arestis; McCauley; Sawyer, 1999., p. 9.

The main criticism of this proposal came from Gaullists in France. They argued against supranational elements, against new institutional integration. Instead, they wanted gradual and evolutional integration. On those lines, a greater "conflict of ideas" came to front again, monetarists vs. economists. France, Luxembourg and Belgium wanted to fixate exchange rates as soon as possible, while West Germany and the Netherlands wanted progressive convergence of economies into a fixed exchange rate[59]. In the end, the Commission yet again took a middle ground approach, developing a strategy of parallelism in economic policy coordination and monetary union.

2.14 (Economic) History from 1958 till 1980

And this is a good place to stop[60] with institutional developments, to give a short overview of historical developments from the Treaty of Rome till 1980. The Werner Report is the last major institutional development before the end of the Bretton Woods international monetary system, although it did not succeed as it was intended, it presents a key point – from it EMU was a question of when, not only if, and its methodology lived on through later developments of EMU. One word that describes the 60s and 70s is crisis. These events shaped the world monetary system, and determined the course of European monetary integration. We will see how the world has changed in the late 50s and 60s, what warranted the changes in EEC that decade ago were considered science fiction (as much as EEC was deemed impossible in 1948, in the same way, things happening by the end of 1970s, were considered impossible in the 1960s).

The Second World War provides context for the creation of the BrettonWoods system. Stability and functioning of it was based on the US Dollar, as the USA was a global economy leader after the end of WWII. The situation changed significantly after the USA started printing money without raising taxes to finance the war in Vietnam. The effects of rising inflation spilled over to the rest of the world, causing inflation and reduction of incomes, resulting in unprecedented stagflation. Along with the USA induced inflation, external shocks through oil crises added fuel to the ongoing stagflation. In the 1973 war between Israel and a coalition of Arab states, the so-called Yom Kippur war, caused Arab states to oil boycott western nations. European countries responded with expansionary monetary policies, to compensate for the rise in oil prices and counter stagflation, an effort that proved futile. Another massive rise in oil

[59] Ibidem.
[60] Not much attention was given to events happening in the background of European integration, other than brief mention. For the reasons to keep the work in its supposed scope, and not to digress much on institutional developments.

price came after the Iranian revolution in 1979, which again prolonged stagflation and put the whole concept of European integration to test.

3 From the end of Bretton Woods, until EMS

The collapse of the Bretton Woods system was in large caused by rising inflation in the USA during the 1960s, which gradually spilled over into the rest of the world. Monetary policy that favored high employment over the price stability, in the first half of the 1960s, and later to cover excessive budget deficits due to the Vietnam War and new social policies in the second half of the 1960s, were the main reasons behind US induced inflation. Since the Bretton Woods system evolved into the de facto US dollar standard, it was an obligation of the USA to maintain stable prices, instead its monetary policy went in the opposite direction. One additional factor in the global monetary ecosystem were big US dollar reserves held by Germany, Japan and others that accumulated in the 1960s, which became hard to get sterilized. In this scenario, the only alternative to inflation was floating (which happened in 1973, after the system collapsed). Issues started to arise with a fore mentioned crisis of 1968/9 in France and Germany, resulting in adjustments in the Franc and Mark. Flight of capital from the Eurodollarmarket gave a short term surplus to the US balance of payment in 1968/9. At the same time, tight monetary policy, Regulation Q ceilings on time deposits, shifted deposits to back to the Eurodollar market, which then again got back to the US by bank loans from the Eurodollar market. In 1970, US interest rates dropped, and loaned Dollars returned to Europe, increasing the US balance of payments deficit to 9 billion USD. It continued to grow till it exploded in August 1971 to 30 billion USD. This further increased the reserves of surplus countries, inducing more inflation. On 5th May 1971, the German central bank suspended official operations in the foreign exchange market, and allowed the Mark to float (a move followed by Austria, Belgium and the Netherlands).

In April 1971 US trade balance ended up in deficit for the first time, and suggestions to devaluate the US Dollar started to be heard. What happened next was the suspension of gold convertibility, when threatened by French and British intent to convert Dollars to gold. President Richard Nixon on 15th August 1971 suspended conversion of US dollar to gold or other reserve assets by his executive order. This ended one part of the BrettonWoods system, its gold convertibility. The other part, the adjustable peg, would disappear 19 months later[61].

[61] Bordo, 1993., 78-80.

3.1 *Back to Europe, appearance of "the Snake"*

The practical collapse of the BrettonWoods system, presented a major issue for recent developments in EEC monetary integration. The Werner Report, and the plan for monetary union presented there, was implicitly based on the stability and existence of the Bretton Woods system[62]. And just like that, an incentive that took years to develop and negotiate was almost instantly deemed over. That's how much impact the end of Bretton Woods had, and how such massive economic crisis was caused by its collapse. Fortunately, the end goal of the Werner Report remained and will develop later, it just got postponed, and its methodology soon found new application and life.

The first step in trying to salvage the BrettonWoods system from complete collapse, came in the shape of Smithsonian accords (or agreements) on 18th December 1971 signed by the G7[63] nations. It preserved the par value component, the adjustable peg of the system. The US Dollar was devalued by 8.6% and all major currencies appreciated. The margin of exchange rate fluctuation against the dollar was set to +/- 2.25%. This, no matter how small it sounds, allowed a fluctuation band against the US dollar at +/- 4.5% and bilaterally, between EEC currencies, it allowed +/- 9% fluctuation band[64]. It was the responsibility of national banks to intervene if fluctuations go over +/- 9%. This presented, once again, the same as in the 1960s, a threat to CAP. To solve this problem, EEC countries decided to create "the Snake" system.

The aim of the system was to weaken the ties to the US dollar and reduce exchange rate fluctuation margins between currencies of the EEC members. Under the IMF, Community member states declared their par values in terms of monetary gold. Agreement between members was achieved in March 1972, finance ministers agreed to reduce fluctuation margins between their currencies to +/- 2.25%. The agreement was implemented in form of bilateral agreements between each and every central bank of the snake members. Central banks established procedures for implementing and coordination of the arrangement. This kind of monetary arrangement was nick named "the snake in the tunnel". The tunnel was IMF's wider margin of +/- 2.25% (total potential +/- 4.5%) from the central exchange rate with the US dollar. The body, however, would never take more than half of the tunnel since exchange rates between member states were never greater than +/- 2.25%.

---

[62] Mourlon-Druol, 2012, p. 24.
[63] Canada, France, West Germany, Italy, Japan, UK, USA.
[64] Arestis; McCauley; Sawyer, 1999., p. 9.

When the system was created and entered into force on 24th April 1972, all six member countries joined. Later, in May 1972, the UK, Denmark and Norway (countries that were supposed to join in 1973) associated their currencies with the snake, with some countries that were not even candidates expressing interest (Austria, Sweden, Spain, Switzerland). Sweden was the only one that joined the snake, while the other three kept a de facto stable exchange rate with the snake. The only difference between EEC members and non-members was in the availability of monetary support mechanisms through EMCF[65]. They could even participate in meetings of the Committee of Governors. On the Paris Summit held in October, members expressed will for further economic and monetary integration, and set the date for the second phase of the Werner Plan as January 1974[66].

But under the pressure of ongoing crisis, the snake grew ever thinner and thinner. In June 1972 UK left, and never returned. Denmark followed in June 1972, but returned in October 1972 and remained. Norway, that did not join as expected on 1st January 1973 due to the failed referendum, associated its currency until December 1978. Italy left in February 1973, France did the same in March 1973, returned then left again permanently. Sweden left in August 1977, as did Norway in December 1978. Relatively quickly after its inception the snake became the German Mark zone, since the UK, Italy and France left. All the currencies that remained in the snake could devaluate towards the German Mark, which they did, but still remained in the snake after a new par value was set, within the same fluctuation margins with the new par value[67]. Thus, the snake didn't bring much expected long-term exchange rate stability. In the end, countries that participated in the snake system benefited more from it, and weathered the crisis better than those who left (and came back).

In February 1973 USA made an announcement to devalue the US Dollar for a second time. EEC members and Group of Ten met and in the end decided to stop official commitment to maintain market exchange rates between US Dollar within any defined margin. This meant the end of the Breton Woods par value system and its complete collapse. The US dollar and other snake member currencies began to joint float. The EEC snake members at the time, plus Norway and Sweden, agreed to continue maintaining market exchange rates between them within +/- 2.25%. After the break-up with US Dollar, the official agreed snake rate of each

[65] Mourlon-Druol, Emmanuel, 2012, p. 23.
[66] Maes, 2004., p. 23.
[67] Denton, Geoffrey. European Monetary Co-Operation: The Bremen Proposals. The World Today Vol. 34, No. 11, Royal Institute of International Affairs, 1978., p. 437.

currency is set against the European Monetary Unit of Account (EMUA), which is the unit of account of EMCF.

The first oil crisis, in 1973 after the Yom Kippur War, caused additional inflationary pressure in the EEC. This in turn caused monetary instability within EEC, and frequent leaving of members from the snake brought the process of monetary union in question. The Werner plan was brought to halt by 1974, although the goal of economic and monetary union remained, with a weak exchange rate mechanism. The snake was deemed a failure, since it did not create a zone of monetary stability, instead it turned into the German Mark zone[68]. In it, the German Bundesbank was the one deciding monetary policy issues instead of EMCF (which, according to the Werner Plan, would transform into the European Central Bank). This was not without benefits for those who followed in the German Mark snake. When the oil shock hit in December 1973 and 1974, and the price of crude oil quadrupled, Germany appreciated 30 to 40% to the US Dollar, effectively wiping out the oil price increase[69].

The snake was initially not seen by all member states as a tool of monetary integration, it was "merely" an instrument of monetary policy stabilization, thus non-members could join and participate. Only after its failure, it was seen that something more than a tool to overcome the breakup of the BrettonWoods system. Even after the failure of the Werner Plan, it became obvious that the central point of European integration will be its exchange rate system[70]. No matter how turbulent the early 70s were, the momentum was there and the process of monetary unification could not be stopped.

3.2 From the end of the Werner Plan till the inception of the European Monetary System

The crisis in the year 1973 brought inflation and recession together, German Chancellor Helmut Schmidt described it as something never seen before in economic textbooks. Keynesian economic modeling hit the wall, and EEC members slowly drifted away from each other more and more. But with the goals set in the Werner Report, member states and the Commission were ready to act. To solve monetary turbulences, the Finance Council drafted a resolution on 17th December 1973 to implement the second stage of the Werner Report, starting 1st January 1974. Further coordination of economic polices was planned with the creation of the Economic Policy Committee (EPC) by the Finance Council on 18th February 1974. It was a merger of three existing committees (Short-Term Economic Policy Committee, Medium-Term Economic

68 Arestis; McCauley; Sawyer, 1999., p. 9.
69 Neal, 2007., 99.
70 Mourlon-Druol, 2012, p. 3.

Policy Committee, and Budgetary Policy Committee), with the same purpose as those it replaced. Unfortunately, member states did not commit to the second stage of the Werner Planas it was planned from the Paris Summit in 1972 and with the aforementioned draft resolution. This meant that the Werner Plan came to a de facto end[71], although its goals and methods would continue to live on.

All these events, dissolution of the snake into the German Mark zone, diverging economic situations and policies, debates between monetarists and economies, meant that the EEC, and EMU in particular, were never in dire straits like these before. The Commission was fully aware of the situation, and on 31st January 1974 published an appeal to the heads of the governments, and through them to *"all Europeans"* for more integration and to combat the ongoing political and economic crisis. Even the British Government, at Council of Ministers on 1st April 1974, openly criticized the EMU project by 1980, stating that conditions were not met. Luckily, a change of mentality came about quickly.

New hope for European integration came from the sudden rise to power of two pro-European leaders in France and Germany. In May 1974, Willy Brandt left the position of German Chancellor and got replaced by Helmut Schmidt. That month, French president Georges Pompidou suddenly died and Valéry Giscard d'Estaing was chosen to be his successor as the President of the Republic. Along with Giscard taking the presidency, his close associates took important positions. Jean-Pierre Fourcade, who was close to Giscard, took the position of new economic and finance minister; Jacques de Larosière, who served as Giscard's head of cabinet while he was Finance minister, became the new treasury minister; also in 1976, Raymond Barre, the same Barre from Barre memorandum, became prime minister and economic and finance minister at the same time. This ensured that the French administration was all on the same page regarding economic policy and the European integration project. On the other side of The Canal, Harold Wilson's return to power in the UK was not a good sign, keeping in mind the Labor Party promise of renegotiation of the UK's accession agreement. But, having two pro-European and economy oriented leaders in France and Germany, meant revival of the Franco-German axis for stronger European integration[72]. Giscard confirmed, as early as May 1974, that the center of new initiatives will be economic and monetary issues, all

[71] Ibidem, p. 25.
[72] Ibidem, p. 27.

to overcome the international economic crisis and EEC institutional crisis. With the strong political backing of Giscard and Schmidt, the only question was how to proceed.

By having West Germany and France somewhat aligned on monetary union goal, one would assume that the hard part of achieving the goal is behind, but *au contraire*, the period from 1975 till 1979, and the introduction of the European Monetary System was the most turbulent institutionally and politically for EEC so far. Along with the Schmidt-Giscard axis, the biggest push for monetary integration was the failure of the Werner Plan and the snake. Inflation was still an unsolved problem, and economic divergence between member states was growing larger than ever. This situation was why some form of EMU was so sought after, evidence of the ineffectiveness of the snake pushed for a return to pre-1970 times of price stability and full employment, for which EMU was seen as the solution[73].

3.3 1975 – 1978, Marjolin Report, Tindemans Report, Jenkins Plan, Schmidt's incentive

The period from 1975 to 1978, that preceded the creation of EMS, was extremely eventful on all sides. Contrary to some intuition, when the crisis was raging, voices for resolution were never more numerous, national politicians, governments, EEC institutions and academic economists – all had their ideas for how to fix the ongoing economic crisis. As is the underlying theme of this work being interaction between political, institutional (EEC) and economic factors, we will mainly focus on suggestions coming through institutional avenues that led to EMS, and in the end to EMU. The scope of the work is limited, and pushing for a detailed overview of economic and political situations would be impossible. On the other hand, it is not even necessary, since a good premise could be made just by well-educated guess on how those two were in these times[74]. We will give an overview of attempts that had the most impact in achieving EMS in 1979.

3.3.1 Marjolin Report

Early 1975 was marked by the first European Council held in Dublin on 10th and 11th of March, and the release of the Marjolin report. The main issue on the Council table was British accession deal renegotiation, which was concluded positively, thus affirming the new (in)formal EEC institution and position of the UK. Economic and monetary issues were "discussed", nothing fruitful came out of it, because politicians preferred the status quo due to the current economic situation.

[73] Denton, 1978., p. 438.
[74] Hint from author, not very good, nor much better than before.

The Commission appointed a group of experts in early 1974 to study the possibility of EMU. The group was presided by Robert Marjolin, a well-known name when it comes to European monetary integration for decades, a former vice President of the Commission for economic and monetary affairs. The economic situation within EEC report summarized in a sentence:

"Europe is no nearer to EMU than in 1969. In fact, if there has been any movement, it has been backwards."

In general, the report summarizes what was said earlier in the chapter. Technically there was some move forward with the snake arrangement, but it ultimately failed, and the goal of EMU was nowhere closer. It also touched on an important macroeconomic issue that was not noticed in general before, failed implementation of free capital movement from the Treaties of Rome. To conclude its stance, Report identifies three points of failure for EMU. The „lack of political will meaning reluctance of members to act in Communal spirit, „unfavorable events" as world economic crisis and lastly „failure to grasp the implications of EMU", which means creation of common institutions, even something akin to a federal state[75]. Of these three, as main issues was lack of political will, since EMU is not something that is going to be technically implemented, but more akin to an ideal that needs to be believed in, patiently implemented and imperfectly followed.

3.3.2 Tindemans Report

Tindemans Report comes as an answer posed by the Commission to the question "what does the European Union mean?". The question was asked to Belgian prime minister Leo Tindemans at the Paris summit in December 1974, while the report became public in January 1976. Tindemans, as much as Marjolin, was aware that in the current state no major progress could be expected, though he did push for the revival of EMU discussion on "new approach". The most important feature of this "new approach" was to see a new European Union, a new EMU, not with all members in it from the start, but together towards the same goal. This, by Tindemans, was different from what Willy Brandt earlier suggested, known as "two speed Europe" or "Europe à la carte". Every member state would commit to the same goal, with the same policies, the only difference would be the time variable of achieving the goals.

Enhanced snake would be the starting point of this system. The first step was to reintroduce the snake, second were obligations of members in the field of monetary policy

[75] Mourlon-Druol, 2012, p. 51-52.

(money supply control, budgetary policy, some aspects of economic policy). Next came better exchange rate coordination between pivotal currencies (German Mark, Franc, British Pound). Forth comes strengthening of short and long term support between members of the snake. In this scenario, the EMCF would be reinforced, so it could become the European Central Bank at some point. Fifth, free circulation of capital should be gradually introduced as envisioned by the Treaties of Rome. Lastly, specific "case by case" measures should be devised for countries out of the snake, to help them join.

Tindemans took an approach without many details and without defining a grand exact goal, compared to the Marjolin Report and Werner Plan – or we can say that he gave concrete short term suggestions with less detailed long term prediction, given the difficulty of the current situation. This approach was something relatively new, since it showed that the road to EMU could be just by improving something already existing. He also took a classic monetarist approach to the short-term, stating that monetary stability today would lead to convergence of economic and monetary policy tomorrow. But in the long-run he took a more balanced approach, stressing parallelism in measures for both economic and monetary policy.

The report didn't gain much traction, it did not present some "grand" solution to EMU, as at that point the mindset was that the opposite was the way forward. Only the French Treasury was satisfied with the report, since they shared opinion on "two speed Europe" and regarding improvements to the snake, which were seen as more realistic solutions to the current situation[76].

3.3.3 Jenkins Plan

There was no lack of proposals for monetary cooperation between 1974 and 1977, as was mentioned before though it is extremely significant if the main proponent of EMU is the President of the Commission. Roy Jenkins entered the office of the President of the European Commission on 6th January 1977. As he himself stated, the first six months as president were uneventful, and his Commission was seen as weak. Looking to strengthen the Commission, Jenkins decided to put monetary union as the goal of his administration, in the last few weeks of July 1977.

The Commission met in La Roche from 16th to 18th September 1977 to formulate its monetary strategy. Two papers were produced, one by Jenkins, and one by Francois-Xavier Ortoli, Vice President of the Commission for Economic and Financial affairs. Ortoli argued for

---

[76] Mourlon-Druol, 2012, p. 77-79.

a gradual and cautious approach to economic and monetary cooperation, while Jenkins wanted „to take the bull by the horns”. Positions, surprisingly, differed drastically. Ortoli was more in line with Marjolin and Tindemans report regarding the meaning of the European Union[77] and their warning about the implications of monetary union. Jenkins' approach was purely monetaristic, his goal was monetary union in the EEC, the pace of achieving it was set to be here and now:

„We need to reduce our present embarrassing reliance on rather dated, gradualist doctrines, which are not taken seriously by the press and are maintained by member states as cover for their lack of political will, and as intellectual imprisonment for the Commission.”

Jenkins approached the issue much more theoretical and academic, he presented monetary union as tremendously advantageous for both „small and big“ currencies. What were practical implications and how to implement it remained to be seen. Also, there was an obvious difference in goal, for Ortoli it was economic and monetary union as a „incremental process“, while Jenkins wanted „just“ monetary union as „qualitative leap forward“. It seemed like the Commission was divided between economists and monetarists yet again[78].

This was an odd and peculiar position of the Commission, but what Jenkins had as a goal, and what he later affirmed in his memoirs[79], was to talk, to sprout discussion about monetary union, rather than achieving it, at least in the short run. Mainly because of the first direct elections for the European Parliament in 1978. What goes in line with this interpretation is that, contrary to popular belief, Jenkins never gave a proposal for a concrete monetary system.

Jenkins did a lot of „monetary proselytizing“, mostly through public speeches and bilateral meetings, but there was little support for his views at that point, most were skeptical, and saw Jenkins's approach as more philosophical than practical. It didn’t help that the Commission was split on the issue either. Heads of governments and ministers saw his suggestions as not timely, that it was not time for a great leap forward yet. To point out, not even Schmidt made positive comments on Jenkins's ideas and work. Jenkins knew that the crucial point, if he was to convince anyone of the monetary union agenda, was the European Council meeting in December in Brussels[80].

[77] Common market, a harmonized fiscal policy, a centralized economic policy, increased budgetary means, common currency.
[78] Mourlon-Druol, 2012, p. 134-138.
[79] Ibidem, p. 140.
[80] Ibidem, p. 139-140.

3.3.4 The Dollar issue

One important factor in late 1977 early 1978, that impacted decision-making and thinking of politicians, EEC institutions and academics, was the decline of the US Dollar. Carter's administration didn't manage to stop the market devaluation of the US dollar. As the Committee of Governors pointed, the US balance of payment deficit, energy crisis, miner's strikes, inflation pressure, and widespread distrust of the administration were the main reasons behind the fall of the US Dollar. This put a strain between the EEC and the US, but mainly between the US and Germany. The USA tried to work bilaterally with Germany to fix the issue, but with little effect. The weakened dollar became an additional motive for European monetary cooperation. Even Margaret Thatcher viewed common currency as a solution to the weak Dollar. Many pointed out that the reason, if not one of the reasons, for Schmidt's change of mind on monetary union was the Dollar problem[81].

3.3.5 Jenkins and Brussels

At this point[82] discussion was not how to proceed with monetary union, what proposal should be adopted, but rather should monetary union officially be put as a goal of the EEC, and then how to achieve it. Since the abandonment of the Werner Plan, many proposals came, but lack of political will to put monetary union as main agenda was missing.

Jenkins continued his mission around EEC members, meeting heads of government and central bank governors, not gaining much support, but not getting much opposition either. In the meantime, the Commission achieved compromise on two papers from La Roche, Ortoli's and Jenkins's. Jenkins made compromises, mainly on his "qualitative leap forward" and monetarist stances. In the end, the paper proposed: "*reaffirm the objective of EMU and ask EEC member states to take concrete action and learn the lessons of the past.*" Ortoli's position is clear, "*if one could not expect big changes in the short term, one should not renounce taking smaller, more concrete steps in the meantime.*"

On the European Council held in Brussels on 5th and 6th December 1977, Jenkins made two points. First, he pointed out that monetary union required a "major act of political will", and second, "it is not the case that an equality of performance is a prerequisite for EMU". He then stressed that the project of monetary union is not a utopian idea, anticipating the main criticism he was facing in past months. Inconclusive and lukewarm responses were

[81] Ibidem, p. 145.
[82] Late 1977, early 1978.

disappointing for Jenkins, but no one poured "cold water" over the project of monetary union, and most of them agreed that EMU was a long term goal. Some general, low point, consensus was found, and the Council called for a "strategy of economic growth" which would be accompanied by progress towards EMU. It seemed that the political will was still not there. No one poured cold water, but EMU received a first class burial[83].

3.3.6 *Schmidt's turnaround*

Two important events occurred in early 1978, Giscard's victory in the French general elections and Schmidt's sudden conviction for a new European monetary plan. The main reasons for a such change of course was the perpetual weakening of the US Dollar, coupled with distrust of US administration economic and monetary policy. On the other hand, which is often oversimplified, Schmidt didn't *actually* have a change of heart, he wanted a different thing than Jenkins. Jenkins wanted full monetary union here and now, and Schmidt's push was for reinforcement of the snake and protection of the German Mark from the declining US dollar[84].

The earliest sign of Schmidt's "change of heart" could be traced to 15th February 1978, where he clearly expressed to his cabinet that the Federal government should make concrete proposals on European Council in April 1978. That move was highly dependent on the outcome of the French general elections in March. Danger came from possible victory of the left, which would mean the end of Barre's government stability-oriented policies since 1976, severely threatening French German economic stabilization and axis in EEC matters. The right wing won, Giscard survived, and Schmidt had his green light forward[85].

It is well established that by now, the main argument for further monetary cooperation were no longer CAP and CU, but the decline of the US Dollar. That's not to say CAP and CU no longer mattered or had no impact, it just shows that the US Dollar issue became *the main* issue[86]. This external factor made another push for intra EEC monetary cooperation viable, further strengthening the Franco German bilateral consensus, arguably at the expense of the UK[87].

[83] Mourlon-Druol, 2012, p. 149-151.
[84] Ibidem, p. 152.
[85] Ibidem, p. 152-155.
[86] Ibidem, p. 157.
[87] Looking in hindsight, someone would dare say that there is a historical pattern here.

3.3.7 Schmidt's (secret) incentive

One of the main reasons for its success, compared to other government and academic incentives, was that Schmidt's proposal managed to reach the appropriate decision-making channels[88]. The Commission in preparation for the Copenhagen summit published a memorandum to governments. In it Jenkins left out monetary issues, suggestions were more along Ortoli's views, but in the end the main topic was set by the German Chancellor.

On the first day of the Copenhagen session of the European council, on 7th April 1978, Schmidt gave his proposal. The main points were:

- Important role of European Unit of Account (EUA)
- Stabilization of currencies through common reserve pool
- Intervention credit scheme (1 month, 6 months, up to 8 years, for example)
- EUA would be used for settlements between central banks
- Creation of the Central European Fund, as is IMF
- Member currencies won't relate to the US dollar, instead they would relate to EUA, and EUA to the US Dollar

As he concluded, this scheme would not replace the snake, it would swallow it. Records of the discussion that followed don't exist, unfortunately, but the consequences have impact till this day.

The last important step in Copenhagen happened on the 8th, during a private morning breakfast between UK Prime Minister James Callaghan, French President Giscard and German Chancellor Schmidt. In the meeting affirmed Schmidt's plan, Giscard expressed support, while Callaghan said he will take an "open critical stance" but not be an obstacle to EMS. They agreed that negotiations would proceed through papers reviewed by experts they choose. Schmidt decided on Horst Schulmann, his senior economic advisor. Callaghan opted for Kenneth Couzens, second permanent secretary at the British Treasury. Giscard's choice was Bernard Clappier, governor of the Banque du France. This semi-secret work group was to produce a paper with a monetary integration proposal in time for the Bremen summit[89].

The group met on 26th May, on the margins of the NATO summit in Washington, where Clappier presented his ideas, and for the first time "European Monetary System" was the name

---

[88] Mourlon-Druol, 2012, p. 168.
[89] Ibidem, p. 168-172.

given to the monetary scheme that was pursued. The next meeting was held at the Banque du France on 14th June, in preparation for the Bremen summit., where Schulmann and Clappier presented their ideas on paper, while Couzens stayed reserved due to upcoming elections in the UK, but stayed supportive of the goal and discussion. On the meeting in Hamburg on 23rd June between Schmidt and Giscard where the Schulmann-Clappier draft was discussed, the timetable was agreed. A proposal would be made at the Bremen summit, that would be endorsed by the Council, and would in turn then give mandate to specialized committees to work on the specifics by 31st October. A month would be given to the governments to consider the proposals before the meeting of the Council in December, and entry in the force of the new scheme would be in early 1979. In preparation for the meeting, Schulmann and Clappier toured EEC capitals, and Jenkins informed Ortoli on the content of the paper, with which, by the time of the summit, almost everyone was informed[90].

The meeting of the European Council was held in Bremen on 6th and 7th July. After two days of negotiations, the Nine agreed to attach the Schulmann-Clapier draft to the presidency's conclusions. The British attained the position that supporting the draft, meant no commitment. What the British prime minister probably didn't perceive, was that even this non commitment support gave immense political legitimacy to the Franco-German initiative, something that was missing earlier in these discussions, something that was crucial for the success of EMS now[91].

At this point between the end of the Bremen summit and the upcoming Brussels's meeting in December, negotiations were extended to specialized committees, which included especially important central banks. Even with strong political backing (Britain apart) established in Bremen, negotiations were quite turbulent[92] and at points the whole scheme was in question. The European Council in Brussels held on 4th and 5th of December had two caveats regarding EMS to resolve. The first one was concurrent studies, where some poor countries like the UK and Italy were net contributors to the EEC budget, and on the other hand, Ireland that was severely lagging behind the rest of EEC, demanded some redistributive economic transfers. Some governments, like Schmidt's never meant to accept automatic interventions under divergence factors, nor would they give much thought to concurrent studies, on the other hand French were demanding reformation of monetary compensatory amounts (MCA), one aspect of CAP, fearing the impact of EMS on CAP and agricultural prices.

---

[90] Ibidem, p. 177-188.
[91] Ibidem, p. 187-189.
[92] Details of these few months are worth of a book of noticable size.

On the 4th, the issue of MCA was solved by Giscard's silent confirmation of Schmidt's stance that EMS would not impact MCA functioning. The next day, after extensive and dire negotiations, Schmidt conceded and agreed to EEC borrowing facilities for Italy and Ireland, while the UK will stay outside EMS and of subsidies for the time being. Even with these concessions, Andreotti and Lynch could not guarantee full government support for EMS. Thus, at the end of the Brussels summit only six out of nine members agreed to EMS, which was feared by some (Dutch, Danish) to be perceived as a failure in public. Luckily, Italy confirmed to join on 12th December and the Irish on 15th December[93]. Based on these agreements, EMS entered in force on 1st March 1979.

In the end, the European Monetary System, one of the most important steps in European integration, was successfully created on the legal limit of Treaties of Rome, by the European Council, an institution without any written legal basis, contrary to the "main" institution European Commission, on the semi-secret incentive by two heads of the member states.

3.4 EMS, what it actually was in the end

No matter how (un)successful the snake arrangement was, EMS was a super snake, a rattlesnake some would say, augmented by European Currency Unit (ECU). Its exchange rate mechanism (ERM) was based on a bilateral grid of parities, same as in the snake. But most importantly, contrary to the snake, EMS enjoyed almost unanimous political backing from the members, and that is why it matters so much. The introduction of EMS marked the beginning of a new economic and monetary consensus based on price stability and low inflation. It also single-handedly resurrected the project of EMU[94].

The main tool of EMS, ERM thus consists of four main elements: the ECU, the parity grid, the divergence indicator and the credit facilities.

ECU is a monetary unit based on a basket of all EEC currencies, its weight determined by the distribution of trade within the EEC[95]. And these values only changed[96] twice, in 1984 when Greek Drachma was added, and then in 1989 when Spanish Peseta and Portuguese Escudo were added. When foreign exchanges change, the value of ECU changes as the value of

[93] Mourlon-Druol, 2012, p. 250-257.
[94] Ibidem, p. 258.
[95] Stewart, 1979., p. 40.
[96] By unanimous decision of Council of Ministers.

composite currencies change, while the composition of ECU remains the same[97]. It was envisioned for the ECU to have four functions:

1) Numeraire (denominator) for ERM
2) Basis for divergence indicator
3) Denominator for intervention and credit mechanisms
4) A means for settlements between monetary authorities

The parity grid consists of the central rate, the bicentral rate and marginal intervention. The central rate is expressed as the amount of nation's currency equal to one ECU and is defined by agreement of all ERM participants. The rate is fixed and only changeable with realignment. The bicentral rate is the rate between two central rates of member currencies. The margin ratio is set at +/- 2.25% (or 6% option can be used, for weaker currency, such as Italian Lira). When the ratio is reached, overextended, that is called marginal intervention, and action must be taken, symmetrically, by both countries' central banks (obligatory intervention)[98].

The second type of intervention came through divergence indicator. Whenever would a currency reach (0.75 x 0.025 (or its agreed fluctuation margin) x (1-weight of the currency within ECU)) fluctuation margin, the central bank would be obligated to intervene in so-called intramarginal fluctuations. This was made in a way to eliminate the influence of the weight of each currency in the ECU on the probability to reach the divergence indicator.

The last component of EMS is its credit financing. There are three types of financing in the EMS scheme, Very Short Term Financing Facility (VSTF), the Short Term Monetary Support (STMS) and the Medium Term Financial Assistance (MTFA). The first two are administered by central banks, and MTFA is done by the Council of Ministers. The purpose of VSTF is financing of obligatory interventions in EMS currencies. It is an unlimited open credit line from one central bank to another in its own currency, amounts drawn are shown in ECU and carry interests. The duration is very short, 45 days after the end of the month in which the mechanism has been triggered, but it can be extended up to 3 months (conditions and limits apply). STMS is a system of mutual credit for all central banks of EMS, with an initial loan period of 3 months, extendable to 9 months. Finally, MTFA is a system of mutual credit between member states of EEC on period from two to five years[99].

---

[97] Shulman, Susan B. A Rapid or Evolutionary Approach: The EEC's Adoption of the ECU as a Common Currency. Northwestern Journal of International Law & Business, vol. 12, no. 2, 1991., p. 394.
[98] Malliaris A. G.; Kondonassis A. J., 1994, p. 296.
[99] Ibidem, p. 296-297.

3.4.1 Conclusions about EMS

No matter how peculiar and hard negotiations towards EMS were, in the end, EMS was a major success step towards total EMU. Its creation in the aftermath of an unprecedented economic crisis and political crisis that put a question mark over the whole concept of European integration, was an unexpected, but highly welcomed turn of events. Jenkins, who had immense will to push monetary union, although economic factors were not adequate for that, found partners in Giscard and Schmidt (partially even in Callaghan, admittedly unwillingly) for something he didn't envision, but turned out to be just the right thing at the right moment. Numerous attempts and suggestions from 1974, or even way back from Werner Plan, all the experience accumulated through them and through the times of crisis, in scope of one year, all came together and created the basis for, as we know it now, monetary union and common currency. The best testament to the value of EMS, is that it is still a functioning part of the European Union's monetary system.

4 Conclusion

Before presenting any form of conclusion, I would like to express the same sentiment that haunted Mourlon-Druol when he tackled the period from 1975 till 1979 in his book, this whole process of economic and monetary integration is covered by many events that are extremely nuanced, yet finding links between them is the most problematic part. For the sake of that, let me present this conclusion with a touch of analogy.

The Bretton Woods system gave the base for post WWII world economic and political recovery. While it was stable, the economies of Europe recovered at a tremendous pace to prewar level. International monetary stability it provided was a frame within which European political unification could develop. Europe, with a stable global monetary system, didn't need to look for a solution regionally, for a problem that did not exist. In these circumstances, after failure of creation of a stronger political and military alliance, the only avenue of integrating Europe to "United States of Europe", was through gradual economic integration.

From here on, you can look at the process of economic integration through the analogy of feeding a toddler with food he doesn't like by giving him small sweets before each bite, just that toddler is not behaving well, and his parent isn't helping the situation either.

The USA had a strong interest in creating and maintaining the process of European integration under its guide. The main push immediately after WWII was the threat of USSR expansion and potentially the expansion of communism outside the USSR. This gave unprecedented consensus within the USA for the Marshals plan and helped establish West Germany as a country after the dissolution of the Third Reich. This postwar thinking is reflected in ECSC, which represented the thought of how important coal and steel are in military production. But as the threat never came to pass, and new battlefields opened, the toddler went on its own way and parent didn't care much either.

The EEC came as a result of regional incentive that saw its own interest, economic union, spelling good fortune for whole Europe, not just Benelux. Major players France and Germany joined the ride and from there on the train is not stopping, it will reach its goal or hit the wall. But the wall was closer than many thought. At this point USA, the parent, started neglecting the child, EEC or you can even say the world, by implementing macroeconomic policy that did not fit the frame, Bretton Woods. Under the pressure of inflation induced by the USA, the system collapsed.

Saving grace for the child came in the shape of Franco German alliance personified in strong individuals, Schmidt, Giscard and Jenkins, fueled by political will to overcome an unprecedented crisis. This political will saved the EEC and resulted in the creation of EMS, a monetary scheme that was at the point the result of almost 30[100] years of European integration, that lasts to this day.

To conclude in a formal way, the process of integration, of European political integration through economic means was primary led by strong political will of individuals to achieve the goal, EMU. ECSC had Schuman and Monnet, there were Marjolin, Barre, Werner, EMS concludes with Schmidt Giscard alliance. No matter their pragmatic interest, such as it was with French in the 1950s, or Schmidt's interest in protecting the German Mark, the will to do something of communal interest, to not give up on the project of EEC was the one factor that made the difference. The best proof can be seen in the period when Breton Woods started to crumble, where there was an abundance of suggestions on how to deal with the crisis. None was implemented when needed, and those that did, such as the snake, ultimately failed. It took almost a decade, luck of the draw - you might say when it comes to elections, personal interests in economics, and various other constellations aligning, to see the fruition of EMS. All would have been futile if the spirit of communal interest, of looking even one bit in your neighbors' yard to see what might help him, was not present in people who made decisions in the late 1970s. This, in my opinion, along with the strong Franco German axis, represents to this day

[100] Depending on where you start to count.

the path for the EU to go forward. Because as we see, contrary to how it should be, parents, USA, don't necessary always take good care of their children, EU.

5 *Literature*

Books:

Baldwin, Wyplosz. The Economics of European integration. McGraw-Hill Education. 2009.

Behrman, Greg. The Most Noble Adventure: The Marshall Plan and How America Helped Rebuild Europe. Free Press, 2008.

Bordo, Michael D. The Bretton Woods International Monetary System: A Historical Overview. University of Chicago Press, 1993.

Fontaine, Pascal. A new idea for Europe: The Schuman declaration 1950-2000. Publications Office, 2009.

Lynch, Frances. France and European integration: from the Schuman plan to economic and monetary union. Cambridge University Press, 2004.

Mourlon-Druol, Emmanuel. A Europe Made of Money: The Emergence of the European Monetary System, Cornell University Press, 2012.

Neal, Larry. The Economics of Europe and European Union. Cambridge University Press, 2007.

Ungerer, Horst. A concise history of European monetary integration: from EPU to EMU, Quorum, 1997.

Articles:

Arestis, Philip; McCauley, Kevin; Sawyer, Malcolm, From Common Market to Emu: A Historical Perspective of European Economic and Monetary Integration, Levy economics Institute, 1999.

Congressional Research Service. The Marshall Plan: Design, Accomplishments, and Significance. 2018.

Denton, Geoffrey. European Monetary Co-Operation: The Bremen Proposals. The World Today Vol. 34, No. 11, Royal Institute of International Affairs, 1978.

Jones, Dallas. The European Monetary Agreement, The European Payments Union, and Convertibility. The Journal of Finance, 1957.

Kondonassis, A. J; Malliaris, A. G. Toward Monetary Union of the European Community: History and experiences of the European Monetary System. The American Journal of Economics and Sociology, Vol. 53, 1994.

Maes, Ivo. Macroeconomic and monetary policy-making at the European Commission, from the Rome Treaties to the Hague Summit. NBB Working Paper, No. 58, National Bank of Belgium, Brussels, 2004.

Shulman, Susan B. A Rapid or Evolutionary Approach: The EEC's Adoption of the ECU as a Common Currency. Northwestern Journal of International Law & Business, vol. 12, no. 2, 1991.

Stewart, William J. The European Monetary System. Quarterly Economic Commentary, 4 (3), 1979.