COMMISSION
OF THE EUROPEAN
COMMUNITIES

EUROPEAN MONETARY POLICY

Towards the gradual establishment of a European monetary system

Contribution by

Dr. h. c. Hans von der Groeben,

Member of the Commission of the European Communities to « Geldtheorie und Geldpolitik » presented to Günter Schmölders on the occasion of his 65th birthday, Berlin 1968

COMMISSION
OF THE EUROPEAN
COMMUNITIES

EUROPEAN MONETARY POLICY

Towards the gradual establishment of a European monetary system

Contribution by

Dr. h. c. Hans von der Groeben,

Member of the Commission of the European Communities to
« Geldtheorie und Geldpolitik » presented to Günter Schmölders on the occasion of his 65th birthday, Berlin 1968

In my contribution, presented here as an off-print, to the Festschrift for Professor Schmölders, I have set out my personal views on the monetary question in the Common Market.

The article considers what monetary requirements must be met if the conditions within the customs and economic union are really to be similar to those obtaining in a domestic market and what measures should be taken to ensure progress in this direction.

Some of my points have already become topical, for example the questions relating to the elimination of the day-to-day fluctuations in exchange rates, the idea of "freezing" currency parities, the improvement of mutual assistance arrangements and the measures to be taken in this connection to strengthen the organizational framework. Recent events have shown how acute these problems are and how far we lag behind the requirements of our time.

Brussels, November 1968 Hans von der Groeben

EUROPEAN MONETARY POLICY

Towards the gradual establishment of a European monetary system

by

Hans von der Groeben

I. The economic objective of European integration

Quite apart from political factors, there is a powerful economic motive behind the drive to unify Europe, a motive which would suffice by itself to justify efforts to achieve economic integration: the welding of six economies into one new large economic area is liberating a considerable number of additional forces making for expansion. These forces will enable the prosperity of the new area to be raised substantially beyond the level attainable if each of the participating economies pursued an economic policy of its own, operating behind the shelter of tariff walls and other protectionist measures commonly resorted to.

The process of economic integration is aimed at creating in the new area conditions similar to those of a domestic market, such conditions being indispensable if all the benefits of growth and prosperity are to be fully exploited. As a consequence of the extra investments firms are willing to make to prepare for the new and larger market a special growth effect will be produced. Any failure to complete integration would not only mean giving up the advantages a merger brings with it, but would also, since the forces making for growth in the larger area would not be exploited fully, entail a definitive year-by-year loss of growth which would clearly represent a margin of prosperity irretrievably forfeited.

Any hiatus in the integration process would therefore be harmful. Integration will take on its full meaning only if it is full integration. Hence there is a need to extend the common market for goods and services, which is almost completed, to a common market for the factors of production. In order to create such a common factor market, all restrictions must be eliminated which impede the movement of the productive forces

across the frontiers. There is also a need for an alignment of the legislation now in force in the Member States: current disparities would give some countries an unfair advantage over others if differences in the legal requirements governing the production process were allowed to persist after tariff barriers had been removed. Differences, for instance, in company law and in taxation would prevent optimum adaptation of the structure of production to the requirements of the new large economic area.

II. Conditions similar to those of a domestic market : the monetary side

The objectives of Article 2 of the EEC Treaty can be fully attained only if all national foreign exchange regulations liable to distort the pattern of payments and transfers between the Member States are withdrawn and if all other legal and institutional obstacles are removed which may prevent capital — a major production factor — from moving across the monetary frontiers. There are three minimum requirements. Firstly, it must be possible to effect payments within the customs union under legally secure conditions and at minimum cost. Secondly, the movement of short-term funds and capital within the union must be liberalized and, thirdly, firm action is needed to create a European capital market. In addition, the confusion connected with the units of account currently used in the European Communities should be cleared up.

1. Security of payments within the customs union

If the task of creating within the customs union conditions similar to those of a domestic market is also to include monetary matters, substantial progress must be made in the fields at present covered by Articles 106 to 109 of the EEC Treaty.

Goods, services, capital and persons will be able to move freely within the Community only if efforts are made to dispel all shadow of doubt as to the irrevocability of the permission to effect the resultant payments and the accompanying transfers across the internal frontiers.

This is, however, not enough. There will be certainty as to the present and future effects of the law only if businessmen are sure of being at any time able to effect the required payments and transfers and if they know in advance at what rate of exchange the transfer from one currency into the other will be made. There are at least four points which are of relevance here:

a) Quite apart from the recent recourse by France to a split foreign exchange market (regarded as a temporary measure), the Belgo-Luxembourg economic and monetary union is still operating such a split market.

Under this system, part of the transfer is normally effected through the "free" market, where the rates of exchange are largely free from official intervention and are formed by the forces of supply and demand. As the monetary authorities are under no direct obligation to intervene in this market, there is at least a temporary possibility of fairly wide deviations occurring from the rates in the "regulated" market and from the official parity, and this, by creating a risk of additional cost, is a special impediment to certain types of capital movement. This last split foreign exchange market would have to be unified.

b) The removal of the double foreign exchange markets would have to be underpinned by a pledge from all Member States to relinquish multiple foreign exchange rates and similar practices in their relations with each other.

c) At the moment it is only between the Belgian and Luxembourg franc that the parity is taken as a basis when the currency of one Community State is exchanged into that of another. In all other cases the basis is the market rate quoted from day to day. Both the International Monetary Fund and the European Monetary Agreement allow the rates used in daily business to fluctuate within a certain range around the declared parities. Under the European Monetary Agreement the monetary authorities need not intervene to influence the daily fixing of the rates on the exchanges as long as the rate recorded in terms of the US dollar does not rise above or fall below the dollar parity by more than 0.75%. As the total range of fluctuation of 1.5% in terms of the US dollar can have a cumulative effect on the formation of the exchange rates between the currencies of the member countries, it is theoretically possible that between one transfer and a subsequent refund the rate of exchange fluctuations may reach as much as 3%. There will be no conditions similar to those of a domestic market as long as these daily fluctuations affect the calculation of amounts of one currency in terms of another. Accordingly, arrangements should be made so that the parities are used as exchange rates for payments within the Common Market. This is all the more important as the exchange of one currency for another entails costs and expenses which can largely be avoided if the parities are used.

d) The official pledge advocated under b) would, however, not prevent a Member State from changing the parity of its currency in relation to the currencies of other Member States. Although each Member State is already bound by Article 107 to treat its policy with regard to exchange rates as "a matter of common interest", this rule and the increasing economic interpenetration within the Common Market are not an absolute bar to changes in exchange parities. It would decidedly be a better contribution to the creation of conditions similar to those of a domestic market if the parities were "frozen" once and for all within the Common Market.

The measures referred to above could well be adopted in the order they have been listed.

Once the parities have been fixed, if not indeed before, new problems will arise in the field which today is covered by the escape clauses of Articles 108 and 109 of the EEC Treaty. The Member States will then only be able to change their parities together and vis-à-vis non-member countries. As long as in this situation the responsibility for balance-of-payments equilibrium at national level and for exchange reserves has not yet been transferred to Community institutions, the least that would have to be done to create conditions similar to those of a domestic market would be to see that the movement of goods and of production factors can no longer be interfered with through the application of safeguard clauses entailing suspension of common market arrangements. The ban on recourse to a balance-of-payments safeguard clause would in this context have to be assessed differently depending on whether a Member State's payments difficulties were the result of deliberate domestic policy or were due to external influences.

In the case of payments difficulties due to domestic factors, there might be a case for imposing stricter conditions before granting mutual assistance. If, however, the payments difficulties were external in origin, the aim should be to make the use of safeguard clauses unnecessary.

The new rules could entrust to the Commission the task of establishing whether the reasons for the payments difficulties were of an internal or an external nature. Where there are external reasons, it should, in line with the principle of solidarity, be sufficient for the granting of mutual assistance binding all parties that in the Council the Member States not directly affected decide by qualified majority in favour of such action.

2. *Liberalization of the movement of capital and short-term funds within the Union*

It would, of course, be much easier for the Belgo-Luxembourg economic union to create a uniform foreign exchange market as stipulated above if all other Member States took, at the same time, action both to eliminate, in their relations with each other, all foreign exchange restrictions still in force and also to remove the other obstacles listed in the draft, laid before the Council some time ago, of a third directive implementing Article 67 of the EEC Treaty. The obstacles referred to include administrative practices affecting the issue and the admission of securities to the stock exchange, regulations for institutional investors concerning the employment of their funds, etc.

Conditions similar to those of a domestic market would in fact not exist until such time as borrowers and in particular issuers were treated on an equal footing with residents, no matter what Member State they were from and no matter what capital market of the Community they wished to enter.

Also relevant here are those taxation rules which impede or distort capital movements between the Member States. There are tax privileges of certain finance institutes; withholding taxes on the yield of securities differ with regard both to the methods used and the rates charged; capital transaction taxes and company taxes (on first acquisition of shares) mean additional costs; the taxation of distributed and undistributed profits varies from Member State to Member State, etc.

Where capital movements are concerned, the approaching expiry of the transition period — on 31 December 1969 — is imposing certain time-limits on the Member States. Liberalization of capital movements only — perhaps even on the basis of a narrow interpretation of the Treaty "To the extent necessary for the functioning of the Common Market...") — would not suffice. A uniform market for production factors can be established only if the short-term money flows are also freed from national constraints.

3. *Creation of a European capital market*

It has been stated above that it is not enough to eliminate national laws that constitute an obstacle but that something should be done to overcome the "natural" inertia (that is an inertia for which there are in most cases institutional reasons) of the flows of payment within the currency frontiers, and this applies in particular to the creation of a uniform large market to balance the supply of capital throughout the union with the demand for it over the same area: with stock exchange practices, provisions governing new issues, credit systems, rules on the activities of financial intermediaries and institutional investors, etc., varying greatly from one Member State to another, the free play of the market forces would still be considerably affected even if there were complete freedom of movement of capital and of short-term funds.

A single capital market must, however, be established if the danger is to be avoided of distortions of competition due to differences in ease of access to the sources of finance or in the cost of obtaining finance. Nor, in the new large area, should the choice of location of operations be influenced by financing considerations. A final argument in favour of a single capital market is that without it European companies will not have access to a sufficient *volume* of funds to enable them to compete with the industrial and financial giants of the other trading nations.

As a Community institution must act as a driving force if favourable market conditions are to be created for the formation and employment of capital on a Community scale, the Commission will have to take the initiative with regard to the harmonization, co-ordination and in particular the modernization of the laws and regulations affecting the organization of the capital market, the credit system, institutional investors and financial intermediaries.

In the meanwhile a working party of the various Directorates-General of the new Commission and a working party of the Monetary Committee are pressing forward with their work on the practical implications of the report on "The Development of a European Capital Market" drawn up in 1965/66 by a group of independent experts at the request of the EEC Commission.

4. *Units of account: creating order out of chaos*

Several units of account are being used at the moment in the European Communities. Let it suffice here to give a brief and necessarily incomplete account:

i) The specific duties of the customs tariff of the European Communities are expressed in terms of a unit of account whose value is fixed at 0.88867088 g of fine gold. This is the same as the present official gold parity of the US dollar. Since the recent change in the gold policy of the United States — if not before — it has been clear what risks are inherent in a unit of account which is defined in terms of gold. The arrangements concerning the unit of account of the customs tariff do not provide for any automatic adjustment, whether in the event of a change in the value of gold or in other cases. The Council, however, which fixed these units of account in 1960, obviously has power to change the definitions.

ii) Two additional types of units of account are used for the budgets of the European Communities. The unit used for Euratom and EEC is also invariable at 0.88867088 g of fine gold. The Commission may, however, submit a supplementary budget if there is a change in the currency parities of one or more Member States.

iii) In so far as the ECSC still has a special budget after the merger of the executives, the unit of account used is that of the European Monetary Agreement, a unit whose value is the same as the others. There is no provision for automatic adjustment; the definition can, however, also be changed at any time — though not by the Council of Ministers of the European Communities but through an amendment of the European Monetary Agreement decided upon in the framework of OECD!

iv) The common agricultural policy was until recently using a unit of account similar to the one used for the customs tariff. However, the risks inherent in the use of this unit of account led the Commission to submit proposals some time ago for the amendment of the regulation, and a new definition was introduced at the end of May 1968.

v) The capital of the European Investment Bank is fixed in terms of units of account which are also defined as having a fine gold content of 0.88867088 g. There is no provision for automatic adjustment of the definition; in the case of certain parity changes the Council of the

Governors of the Bank may, however, decide that certain consequences normally resulting automatically from the use of this unit of account are not to occur.

vi) Another type of unit of account is used in the association agreement with the African States and Madagascar. It is also based on the same fine gold content as the other units. There is, however, provision for an automatic change of the gold content if the International Monetary Fund decides to change the price of gold; there is an arrangement for the Council to review the situation if special circumstances arise. The same type of unit of account is used in the association agreement with Turkey.

vii) The unit of account used in the association agreement with Greece is quite simply the US dollar.

The co-existence of different units of account, most of them moreover based on a quantity of gold, has not so far occasioned inconvenience in the Community, but it would by no means simplify the situation if the units of account were at any time actually required in practice for use as the guarantee they now provide on paper. The Commission has endeavoured to put the agricultural unit of account on a different basis. There is a strong case for a thorough reappraisal of the whole problem.

It would be considerably easier to find a solution if the final pattern of parities (see Section II [1]) between the currencies of the Member States were already fixed. This framework could then supersede gold as a basis of reference. Creditors would be given the right of asking for payment in the Community currency of their choice, with the exchange relationships fixed in advance serving as a basis. Pending the definitive establishment of a pattern of parities, an attempt should be made to reduce the number of units of account. The authorities should consider how far it would be possible to put the unit of account immediately on the basis of a pattern of parities that does not depend on gold; depending on the field in which the unit is being used, a solution to difficulties arising might be to adopt differing implementing arrangements.

Such simplification could help create an instrument which could be used in a Community-scale capital market by borrowers and lenders pending the fixing of the pattern of parities.

III. Problems and how they might be solved

Once the changes in the monetary field that are indispensable to create the conditions of a domestic market have been made — and for that matter, while they are being made — a number of questions will have to be clarified both inside the union and in respect of the relations with the outside world. The aim of this section is to discuss the chief problems and to point to ways of solving them.

1. Need for internal safeguards

It would be a mistake to imagine that it would be sufficient to declare the parity relationships within the union immutable by a legal act. If no action is taken to safeguard the actual economic basis for this measure, circumstances could well render it inapplicable, since decisions and developments in the national economies might affect the market in such a way as to make nonsense of legal undertakings.

If the parity relationships within the Community were immutable while national currencies which were in all other respects still largely independent were maintained, balance-of-payments problems would continue to arise in the individual countries. In a situation in which there are fixed parities, a non-integrated economy could counter these national payments problems by changing the level of prices and/or influencing the employment situation, depending on the type of problem involved. As they are growing together in the Community, the economies are, however, no longer able to influence on their own authority the internal employment situation and the price level within the country to the same extent as before. This is because, firstly, the free movement of goods and factors of production in the new large area is bringing with it increased interdependence of prices and costs and, secondly, certain instruments of national economic policy have lost much of their effectiveness at national level. There is, for instance, a tendency for the pressure of monetary and credit measures to leak away through the national frontiers; with the impediments to the flows of payments gone, the opportunities for the Member States' national authorities to influence money supply within the country have been sharply reduced.

In such a situation, undesirable developments which occur in a given member country are not only much more difficult to combat by means of the national instruments of that country, but in their effect on the national balance of payments also tend to be strengthened by the market forces. If there is excess demand at national level, goods can be imported unimpeded from other parts of the new large market; this will check the upward thrust of prices in the country registering the inflationary trend but will also increase the national balance-of-payments deficit; at the same time there is an inflow of workers whose remittances also place a burden on the balance of payments; it would only be the capital attracted by the consequent improvement in the profit outlook and flowing in from other parts of the union — there would at first be no exchange risk — that would initially reduce the pressure on the balance of payments. It must, however, be realized that legal assurances regarding the free movement of capital and fixed exchange rates could, in view of the developments in the Member State concerned, very soon lose their credibility and that the exchange hazard would then be likely to lead to a reversal of the flow of capital.

With the effects of economic policy mistakes committed at national level working their way freely and consequently rather rapidly through to the economies of the partner states, there has been a vigorous increase in the interest every member country takes in what the others do — and in what they fail to do. The concept of the "common interest" already used in the Treaty is thus assuming its full meaning.

The pressure to co-ordinate to which the national authorities would be exposed at least over the longer term would be quite strong. There is reason to fear that the demands thus made on the self-discipline of government authorities, both sides of industry and lobby groups might go beyond what is tolerable and that this might lead to developments that were not compatible with a fixed pattern of parities.

In the face of this situation, nobody wants to restrict the freedom now enjoyed by unions and managements; nor can pressure groups seeking to influence official economic policy be forbidden; if fixed parities are none the less desired, then the only solution is the increasing transfer to the Community of responsibility for payments equilibrium in the six countries. There are in the main two problems which are of interest in this context:

a) As long as the responsibility for the balance-of-payments equilibrium has not yet been transferred completely to a Community body, the main requirement is that the Member States agree on economic policy objectives.

b) If this responsibility is to be exercised progressively at Community level, institutional arrangements must be made to allow of agreement on the decisions actually to be taken.

Where agreement on economic objectives is concerned, those desiring to establish fixed parities must clearly understand that an important condition must be fulfilled if, for reasons of social policy, the employment situation in all the Member States is to be good and if worker migration is not to be treated as a mere pressure-equalization device. That condition is that price levels in the different countries are not allowed to drift too far apart. This is less a question of day-to-day politics than a problem of a concerted approach for the medium-term. If, for instance, the medium-term economic policy projections showed that the average annual price increase expected over the next five years was 1 % in one member country and 2.5% in another, it would have to be feared that the difference of 7.5% expected in the price trend in five years' time would not be compatible with fixed parities within the Community. The Commission would therefore have to act in its capacity as an early-warning authority and as an independent adviser. Undesirable developments would have to be combated by active measures. This requires, of course, that all concerned should be able to agree on common objectives, an aim which will not be easy to achieve. Over the longer term there is, however, a definite need for agreement on common objectives, since

failure to reach such agreement would mean that it would be impossible to make the monetary arrangements which are indispensable if there are to be conditions similar to those of a domestic market, and that the fixing of the exchange rates would not only make no sense but would give rise to additional difficulties.

As regards the institutional arrangements for agreement on the decisions actually to be taken, the situation is likely to vary with the instrument of economic policy involved. The examples of financial policy and monetary policy are examined in more detail below.

Monetary policy will lose much of its effectiveness at national level under the conditions aimed at. As it may, however, given certain arrangements, play an important role at Community level in the economic policy of the union towards non-member countries, it would, as time goes on, lend itself well to being used in fairly large measure as a Community instrument. Once agreement had been reached on this principle, the question would arise immediately as to the nature of the decision-taking Community body needed in the event. Should decisions be taken on the Council pattern by representatives of the individual Member States or on the Commission pattern, with the acceptance of instructions from the Member States being ruled out?

If decisions were taken on the Council pattern by representatives of the Member States, this could easily entail the risk that individual governments or central banks would wish to impose a specific point of view, resulting in package deals of little service to the Community cause, and that prompt decisions would not be possible. Although at national level politicians are apt to fight, in the final analysis, for fairly close dependence of the central bank on the government, there might therefore still be a case for envisaging for Europe an independent central monetary body on the Commission pattern. Unlike a federative executive, such a body would probably be less harassed by conflicts of national interests and would be able to decide more rapidly in line with the merits of the case. This does not mean that the member countries' central banks would have to retire into insignificance. In fact, the US Federal Reserve System could well serve as a basic guide to European thinking in this field.

As monetary policy will be largely deprived of its effectiveness at national level it can be expected that those in charge of national economic policy will wish to make increasing use of the instruments of financial policy. Given, however, its effects on the balance of payments, financial policy will then become a very special object of "common interest". Hence, there will be a strong need for co-ordination. Federative consultative bodies in which the independent Commission should be represented with a right of vote would have to be given an increasingly important say in outline decisions taken at national level; this power could, for instance, take the form at first of recommendations and subsequently that of

binding directives. It may suffice to point to the importance attaching to the scale of government budgets, the nature of revenues and expenditure and the financial policy (including debt management and government credits) from the angle of short-term economic policy and balance-of-payments policy. There is therefore a need not only for a central monetary body but also, in addition to the already customary meetings of the Ministers for Economic Affairs, for regular Council meetings of the Ministers of Finance, regular meetings of the state secretaries concerned and for a reassessment of the work of the Budget Policy Committee, which should meet more often.

These comments on the harmonization of objectives, the use of monetary policy as a Community instrument and the need for increasingly binding co-ordination of the basic decision of financial policy should have shown that freezing the exchange rates between the Member States would not only exert a more or less strong actual pressure to abandon independent national economic policy but would at the same time also have to lead in a number of respects to the abandonment of the exclusive and unco-ordinated exercise of certain sovereign rights.

But there are other implications and other needs.

A rational economic policy should endeavour to maximize prosperity gains in the long run. There is general agreement that price and cost stability is indispensable if there is to be optimum growth over the longer term. If Europe wishes to pursue an economic policy along rational lines it is therefore necessary but not sufficient that the expectations and objectives of one Member State should be compatible with those of another. The task is rather to agree on objectives and pursue policies which make our continent a Community based on stability rather than a Community based on inflation.

This is what the governments of the Member States must decide to do.

2. A coherent policy on external monetary relations

It stands to reason that the development of a European monetary system needed within the common market for goods and the factors of production must be accompanied by a change in external monetary relations. Here a basic principle is that the new large area has a considerable interest in the smooth working of international trade and international payments.

Some changes in external relations would follow almost automatically. If, for instance, the Member States abandon multiple rates of exchange, abolish inside the Community the day-to-day "spread" of the rates of exchange and establish a fixed pattern of parities, there will be a tendency for both spot and forward rates to show about the same deviations from

the parity in relation to currencies from non-member countries: under these conditions it would normally not matter for residents of non-member countries which of the currencies of the Member States they used. The result of the tendency to equal "spreads" in relation to outside currencies would, however, be that the foreign exchange operations of European central banks would have to be effected along uniform lines or through a joint agent since otherwise there is a danger that the effects aimed at would offset each other or that the balances of payments of the individual Member States would be distorted.

An additional point is that if the union decides to pursue a policy of stability, a crucial question arises in respect of the relations with non-member countries: can the drive to achieve extensive co-ordination of economic policy between the Community and the main trading partners yield results promising enough to dispel the danger of imported inflation?

If co-ordination among partners enjoying equal rights is thought to be feasible, one would have to opt, where the relations with non-member countries are concerned, for fixed parities with a spread either side of par. If, however, such an approach is discarded for one reason or another the choice over the longer term will be between adjustment of the parities in instalments, as currently also practised under the Bretton Woods agreements, and flexible rates of exchange in relation to the main trading partners.

The measures deemed necessary if a fully effective internal market is to be built up in many respects almost automatically imply the need for a coherent external monetary policy. The European monetary system to be developed should therefore sooner or later lead on to monetary union. One of the union's features, to be aimed at at an early stage, would be that in their relations with the outside world the Member States would, from the angle of monetary policy, still appear as separate entities but that they would use a single spokesman representing the union, as they did during the Kennedy Round.

Such a uniform external monetary policy would include:

i) Harmonization of the policy regarding reserves,

ii) A common attitude in the matter of reserve currencies, and

iii) A common stand on the future of gold.

It would go beyond the scope of this survey to study these and other problems of external monetary policy in full detail. Some remarks in the way of a brief outline may therefore suffice.

Harmonization of policy regarding reserves could, of course, be confined to a minimum requirement, i.e. the fixing of percentages of foreign exchange, gold and credit balances to be held as monetary reserves with the international monetary institutions. It could, however, also mean the pooling, in part or in full, of the reserves with a Community institute.

The policy vis-à-vis the reserve currencies would be linked to the question of what prospects there are of arriving at a successful co-ordination of economic policy with non-member countries, with stability being the common denominator, and to the choice taken as a consequence. In addition, it should, as a last point, merely be recalled that with Great Britain a member of the European Economic Community, the problem of sterling could be solved within the framework of a European reserve fund.

As for gold, there is much to be said for the view that in the longer term gold should be considerably reduced in status as a determinant of monetary policy.

IV. Conclusions

The process of European integration should be carried to completion since failure to do so would result in irretrievable losses of prosperity. Completion of the process of integration includes the creation of conditions similar to those of a domestic market. This applies also to monetary policy. In the monetary field, conditions similar to those of a domestic market mean not only substantial measures of co-ordination on the part of the Member States but also real sacrifices of sovereignty. In the monetary field, conditions similar to those of a domestic market also require a coherent external monetary policy. A European monetary system and the economic background required for its establishment would thus go a long way towards clarifying the questions arising today with regard to the international monetary system. The negotiations with non-member countries would in this connection have to be conducted in a spirit of partnership and equality, with the Commission if possible represented by a spokesman as it was in the Kennedy Round.

Should the aim be to establish such a European monetary system progressively or all at once?

There is clearly a certain dependent relationship between monetary developments and developments in the other fields. Although it would therefore be theoretically possible to decide in favour of a common currency to be introduced all at once, corresponding progress in other fields would, in this case, have to be made with minimum delay. However,

since to waive additional national sovereign rights requires great self-restraint and in most cases even a victory over one's own political ego, the approach to be adopted in practice will have to be one of advancing step by step. The right tactics here consist in action to ensure that unification in the monetary field never lags behind and is in fact always slightly ahead, since the policy of ensuring a lead to the monetary field would at least encourage, and perhaps, indeed, provide a commanding inducement to, the integration process in other fields.

PUBLICATIONS SERVICES OF THE EUROPEAN COMMUNITIES
8252*/5/XII/1968/5