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MACROECONOMIC AND MONETARY POLICY-MAKING AT THE EUROPEAN COMMISSION, FROM THE ROME TREATIES TO THE HAGUE SUMMIT

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Abstract

This paper discusses macroeconomic and monetary policy-making at the European Commission, covering the period from the Rome Treaties to the Hague Summit. It is based on an analysis of public documents, archival research and interviews with former policy-makers. The paper starts with an overview of the economic philosophy of the Rome Treaties and senior macroeconomic policy-makers at the Commission, followed by an analysis of economic developments in the 1960s. Thereafter, the focus is on three crucial macroeconomic policy documents of the period: the European Reserve Fund project in 1958, the Commission's Action Programme for the Second Stage of the EEC of October 1962 and the Barre Memorandum of October 1969. The Commission’s objectives tended to be both defensive, preserving the "acquis communautaire", especially avoiding recourse to the safeguard clauses, and pro-active, stimulating the process of European integration. From an analytical point of view, the Commission focussed on the compatibility of policies between the Member States. Gradually, a typical Commission analysis developed, based on a blending of German convergence ideas with the French medium-term approach. The paper further illustrates the ascent of the Commission as an actor in the monetary area, notwithstanding the relatively limited provisions of the EEC Treaty.

JEL codes: A11, B20, E60, F02, N14, P16.

Keywords: Macroeconomic and Monetary Policy-Making, European Commission, Rome Treaty, European Reserve Fund, Action Programme for the Second Stage, Barre Memorandum, the Hague Summit

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1 INTRODUCTION

The creation of the European Economic Community (EEC), in January 1958, has profoundly transformed European society during the last decades. During the 1960s the common market, an essential element of the Rome Treaties, was to a large extent realised.

However, in the mid 1950s, the six *"Schuman"* countries that created the European Coal and Steel Community followed two rather different paths to economic integration. The six countries opted for regional integration of the goods markets, with the creation of the common market. However, monetary integration was approached from a more world-wide perspective, with the restoration of complete external convertibility in the framework of the Bretton Woods system (Abraham & Lemineur-Toumson, 1981). These approaches would largely determine how the Commission and the central bank governors of the Community viewed monetary issues. For the Commission, monetary integration was linked with the integration of the goods markets, where agriculture would occupy a special place. This contrasted with the perspective of the central bankers of the Community, for whom currency issues were, in the first instance, an issue related to the international monetary system.

In this paper the focus is on macroeconomic and monetary policy-making at the European Commission, covering the period from the Rome Treaties to the Hague Summit. The EEC Treaty was, de facto, of a constitutional order and would transform economic and legal rules in the countries of the Community. Moreover, as is well known, the EEC Treaty was a framework treaty. One of the main objectives of this paper is to investigate how the Commission, on the basis of the treaties, sought to develop its role in the macroeconomic and monetary area. Therefore, the focus of the paper is on three crucial macroeconomic policy documents of the period under consideration: the proposal for a European Reserve Fund in 1958, the Commission's Action Programme for the Second Stage of the EEC of 1962 and the Barre Memorandum of October 1969. The paper thus analyses the gradual emergence of the Commission as an actor in the monetary area. The paper ends with the Hague Summit of December 1969, when an ambitious programme to deepen European integration, including economic and monetary union, was launched. However, the monetary union project was, at least initially, not very successful.

A study of the policy-making process encounters certain specific problems, compared with the study of traditional academic economic texts (Maes, 1996). A crucial difference is that the economic theories and paradigms are less explicit, more hidden. Moreover, official documents and archival materials involve many persons and, consequently, are more heterogeneous. Any analysis of the policy-making process will therefore involve a degree of "rational reconstruction". For this, it is also important to get to know the persons behind the policy documents. This paper is therefore also based on a large scale programme of interviews, giving the paper an "oral history" flavour (cf. annex 1).

The paper starts with an overview of the economic philosophy of the Rome Treaties and of senior macroeconomic policy-makers at the Commission, followed by an analysis of economic developments in the 1960s. Thereafter, the focus is on three crucial macroeconomic policy documents of the period: the proposal for a European Reserve Fund in 1958, the Commission's Action Programme for the Second Stage of the EEC of 1962 and the Barre Memorandum of October 1969. The paper concludes with an analysis of the Hague Summit.

2 THE ROME TREATIES: AN ECONOMIC THOUGHT PERSPECTIVE

After the failure of the plan for a European Defence Community, the Benelux countries revived the integration process with the common market project[1]. The ensuing Rome Treaties reflected the priorities and sensitivities of the Member States. In the post-war period, there were significant differences in ideas and economic policy-making, especially between France and Germany (Maes, 2004).

In Germany, the economic order was based on the concept of the social market economy (Tietmeyer, 1999). In France, the state played a greater role in economic life and pursued more activist economic policies, with "the Plan" taking a central place. These differences in economic ideas were to a large extent based on more fundamental underlying differences in "meta-beliefs". The "republican tradition" in France stressed the sovereign nation as the source of legitimacy and, consequently, the political direction of economic policy. The post-war German federal system stressed decentralisation and a division of power. The social market economy fitted in with this conception.

During the EEC Treaty negotiations, the German government was deeply concerned about the new European economic system that would be created. One of the main German aims was that the European common market should have the same economic order as the Federal Republic, based on the principles of a market economy and a liberal trade policy. The Germans feared that interactions with more etatist and planned economies, through the common market, could imperil the consistency of their own economic system (von der Groeben, 1979, p. 496).

The French favoured a greater role for the state in economic life. In a policy memorandum, the French government proposed the idea of planning on a European scale: "A policy of expansion ... implies investment which, in the basic industries, in the chemicals industry, in many of the

1 As the rejection of the plan for a European Defence Community was a setback to political integration, the economic element was pushed to the forefront (Issing, 2000).

processing industries, rests on a precise conception of the targets to be assigned to production over a period of several years. Convergence of the different national economic policies can therefore be ensured only by reconciling and harmonising national production objectives" (as quoted in Marjolin, 1986, p. 287).

Moreover, the French government was very concerned that France was not in a position to engage in competition on equal terms. It was therefore in favour of harmonisation of legislation which affected the competitive position, especially social legislation. The French argued further that agriculture had to be included in the common market and that France had extra costs, due to her responsibilities towards her overseas territories.

The EEC Treaty was, de facto, of a constitutional order and would transform economic and legal rules in the countries of the Community (Padoa-Schioppa, 1998, p. 9). Looking at the Rome Treaties from an economic thought perspective, the European Atomic Energy Community (EAEC) bears a heavy French (planning) imprint, with its sectoral approach, while the European Economic Community, with the abolition of barriers to the free movement of goods, services, labour and capital in the common market and strong emphasis on competition policy, shows a stronger German influence[2]. France obtained the extension of the common market to agriculture and the association of the overseas territories. The social chapter was rather limited.

Compared with the customs union, commercial policy or competition policy, for example, the responsibilities of the Commission were rather limited with respect to macroeconomic and, especially, monetary issues. Triffin (1958, p. 1) described the limited monetary dimension of the EEC Treaty as “a Hamlet in which the role of the Prince of Denmark is almost totally ignored”. The Treaty left macroeconomic policy-making mainly at the level of the Member States. The responsibilities of the Commission concerned the orientation and co-ordination of the national macroeconomic policies.

The part of the Treaty on "Economic Policy" comprised three chapters: "Conjunctural Policy", "Balance of Payments" and "Commercial Policy". The integration project goes farthest in the area of commercial policy, where, after the transitional period, "a uniform commercial policy" is foreseen (Article 111)[3].

[2] Free movement of capital was more limited, in response to French pressure. Moreover, France also obtained the "safeguard clause" (cf.infra).

[3] As the references are to the original EEC Treaty, the original numbering of the articles is followed.

The chapter on "Conjunctural Policy" is rather short (only one article). It stipulated that macroeconomic policy, while being a matter of common concern, remained a responsibility of the Member States. Article 103.1 said that "Member States shall regard their conjunctural policies as a matter of common concern. They shall consult each other and the Commission on the measures to be taken in the light of the prevailing circumstances". The procedures to be followed were indicated in Article 103.2, which stated that: "the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the situation". In 1960, after a German initiative, the "Short-term Economic Policy Committee" was created on the basis of Article 103 (CEC, 1960).

The most extensive discussion of macroeconomic and monetary issues can be found in the chapter "Balance of Payments". It further illustrates that macroeconomic and monetary issues were tackled from a "common market" perspective, as balance of payments disequilibria would threaten the creation and functioning of the common market. Article 104 states that each Member State should pursue an economic policy "to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices". Otmar Emminger (Deutsche Bundesbank) considered this a "fundamental" article as it implied the commitment of the Member States to adopt economic policies which would ensure balance of payments equilibrium (Emminger, 1958, p. 93). Article 105.1, states that, in order to attain the objectives of Article 104, "Member States shall co-ordinate their economic policies". It continues that the Member States "shall for this purpose institute a collaboration between the competent services of their departments and between their central banks". Already in January 1958, the Governors of the central banks decided to organise this cooperation, informally in Basle, and informed the Commission of this (Pluym and Boehme, 2004, p. 117).

During the negotiations, the exchange rate issue was also a topic of serious discussions. According to Van Tichelen (1981, p. 340), one of the Belgian negotiators, one of the main points of disagreement was whether it should be a national or a Community competence. The Belgian delegation, inspired by a Commonwealth formula, proposed that "Each Member State shall treat its policy with regard to rates of exchange as a matter of common concern" (Article 107.1). It was an ambiguous formula, but it succeeded in placing the exchange rate in the area of competence of the Community.

Article 108 discusses the situation where a Member State has serious balance of payments difficulties which could threaten the functioning of the common market. It stipulates that the Commission should investigate the situation and that the Commission can recommend measures for the Member State to take. Moreover, the article provides for the possibility of granting "mutual assistance". Article 109 contains the famous safeguard clauses, which France insisted on, whereby in the case of a sudden balance of payments crisis a Member State can take the "necessary protective measures".

The Treaty, in Article 105.2, also provided for the establishment of the Monetary Committee. It was based on a French Memorandum (Archives NBB, B 436/4). The Memorandum noted that in the monetary area, which remained a matter of national sovereignty, efficient cooperation was necessary for the functioning of the common market. The proposed missions of the Monetary Committee were to provide reciprocal information for the various authorities and to formulate opinions on “all aspects of monetary policy concerning the functioning of the common market”. The Memorandum explicitly mentioned the mutual assistance procedure[4].

The relative absence of monetary issues in the EEC Treaty can then be explained from several perspectives (Pierre-Brossolette, 2002, p. 100). Money and monetary policy were considered as important elements of national sovereignty. Therefore, the negotiators were reluctant to tackle these issues so soon after the failure of the initiative for a “European Defence Community”. Moreover, monetary integration was taking place in the framework of the Bretton Woods system and the European Monetary Agreement (EMA), which succeeded the European Payments Union (EPU)[5]. Also, there was a reluctance in France against a too pronounced integration with Germany, given “certain too recent memories”. Finally, in the mid 1950s, there were important divergences in economic and monetary policies between the countries of the EEC. All in all, the EEC Treaty already seemed very ambitious.

3 SENIOR MACROECONOMIC POLICY-MAKERS AT THE COMMISSION

It is the College of the Commission which is ultimately responsible for policy-making at the European Commission[6]. The first organisation chart of the Commission is remarkably simple and reflects very well the structure of the EEC Treaty (cf. Table 1). The Commission initially comprised nine directorates-general (departments), giving a good overview of the activities of the EEC. These were External Relations, Economic and Financial Affairs (the macroeconomic research department), Internal Market, Competition, Social Affairs, Agriculture, Transport, Overseas Countries and Territories, and Administration. There was also the powerful Secretariat (with responsibility for such matters as the co-ordination of activities and the preparation of the Commission’s meetings).

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4 For an overview of the regular tasks of the Monetary Committee, cf. annex 2.

5 The European Payments Union was established between the countries of the Organisation for European Economic Cooperation (OEEC), from 1 July 1950 to 27 December 1958. The aim of the agreement was to promote free trade by a multilateral clearing of payments between the member countries. This was complemented by a framework of policy coordination and surveillance. The EPU was replaced by the European Monetary Agreement, whereby the EPU countries decided to make their currencies convertible. The EMA lasted until 31 December 1972.

6 In the EEC terminology, the term "Commission" is used both for the College of the Commission, the body of commissioners, and for the Commission departments, the administration.

In the allocation of the responsibilities of the Commission members and the directors-general (the highest civil servants) one can observe the preoccupations and sensitivities of the Member States, such as France and Germany. Louis Armand, a Frenchman, was the first president of the Commission of the EAEC. Walter Hallstein, a German, was the first president of the Commission of the EEC, while the Secretary-General, Emile Noël, was French.

There was also a Franco-German balance in the allocation of responsibility for economic policy. The Germans had the competition policy portfolio, with Hans von der Groeben. The French had a key role in macroeconomic policy, as Robert Marjolin became responsible for Economic and Financial Affairs.

The Germans further secured their presence in external relations with the directors-general for External Relations and Overseas Countries and Territories (Seeliger and Allardt[7]). Moreover, they were pleased to have Belgium's Jean Rey at foreign relations. As von der Groeben (1998, p. 106) later remarked, "we could more readily expect him, a liberal politician, to have an appreciation of a worldwide and liberal trade policy".

Table 1 - The first Commission of the European Economic Community

Responsibility	**Member of the Commission**	**Director-General**
Presidency (Secretariat - General)	W. Hallstein (D)	E. Noël (F)
Economic and Financial Affairs	R. Marjolin[1] (F)	F. Bobba (I)
Competition	H. von der Groeben (D)	P. Verloren van Themaat (N)
Internal Market	P. Malvestiti[1] (I)	F.-X. Ortoli (F)
Agriculture	S. Mansholt[1] (N)	F. Rabot (F)
Overseas Countries and Territories	R. Lemaignen (F)	H. Allardt (D)
External Affairs	J. Rey (B)	G. Seeliger (D)
Social Affairs	G. Petrilli (I)	J. de Muyinck (B)
Transport	M. Rasquin (L)	L. Renzetti (I)

1 Vice - President.

7 In 1960 Allardt resigned (or had to resign) because of disagreements with regard to the preferential regime for the overseas territories (Lemaignen, 1964, p. 146).

The French also obtained key positions in sensitive areas. Robert Lemaignen became the Commission member responsible for Overseas Countries and Territories, while François-Xavier Ortoli and Jacques Rabot became director-general for, respectively, the Internal Market and Agriculture[8]. The French were also quite happy with Sicco Mansholt as the Commission member responsible for agriculture: he had been a Dutch Minister for Agriculture for many years, had a thorough understanding of how the farm sector worked and was convinced of the need for a common European agricultural policy (Marjolin, 1986, p. 313).

Within the Commission then, the French had the lead in macroeconomic policy, firstly with Robert Marjolin and later with Raymond Barre as the members responsible for the Directorate-General of Economic and Financial Affairs (cf. Table 2). Robert Marjolin and Raymond Barre were both very prominent French economists. Their impact on policy-making at the Commission was even more important, as the Commission administration was quite small at that time.

Marjolin is considered as one of the few prominent "Keynesian" economists in France, developing in his doctoral dissertation a long-run dynamic theory (Arena and Schmidt, 1999, p. 93). He later became the deputy of Jean Monnet at the French Planning Office and the first Secretary-General of the Organisation for European Economic Cooperation (OEEC). During his time at the Commission he was also very much interested in economic programming[9]. Raymond Barre was quite professorial, with a wide knowledge of economic theory. He was free market oriented, and very much a man of "economic discipline", convinced of the importance of stable prices and exchange rates[10]. He also had policy experience as the chef de cabinet of Jean-Marcel Jeanneney, De Gaulle's Minister of Industry in 1958, a post which entailed supervising the abolition of tariffs and quotas, as required by the Rome Treaty. From a political perspective, Marjolin was close to Monnet, but more pragmatic (Berthoin, 2004). Barre, at that time, was close to the Gaullists.

8 Naturally, the appointments at the level of the Commission and director-general reflect many other elements. For instance, Marjolin was considered a socialist, while Lemaignen had been the vice-president of the French employers federation (with extensive African experience). As regards the Belgians, Rey was a liberal politician and de Muyinck a trade-unionist.

9 According to an interviewee, Monnet and Marjolin did not really grasp the idea of the market. For them, economics was a question of "steering from above".

10 Barre (2000, p. 19) mentions that it was in Brussels that he got to know the differences between the approaches of the French administration ("a keen sense of interventionism, supported by a certain lack of understanding of the market" and "formally or informally protectionist") and the German approach.

Table 2 - Senior macroeconomic policy-makers at the European Commission

	Hallstein Commission[1]	Rey Commission[2]
Member responsible for DG II (Economic and Financial Affairs)	R. Marjolin (F)	R. Barre (F)
Chef de cabinet	J. Flory[3] (F)	J.-C. Paye (F)
Director-General of DG II	F. Bobba (I)	U. Mosca (I)
Directors:		
- National economies and business cycle	P. Millet (F)	B. Molitor (D)
- Monetary matters	L. Gleske (D)	F. Boyer de la Giroday (F)
- Structure and development	L. Duquesne de la Vinelle (B)	M. Albert (F)
- Budgetary matters[4]	-	G. Wissels (N)
Secretary of the Monetary Committee	A. Prate (F)	R. de Kergorlay (F)

1 End 1959.
2 September 1967.
3 From 1963 to 1968.
4 Created in 1967.

At the level of the administration, the Directors-General of DGII have traditionally been Italians[11]. The first one, Franco Bobba, was a former diplomat, a senior official at the economic directorate of the Italian Ministry of Foreign Affairs and one of the negotiators of the Rome Treaty. He was succeeded by Ugo Mosca, also a former diplomat. Both Bobba and Mosca had a reputation for being good organisers and negotiators (former diplomats), but less for providing intellectual stimulation to the DG (where Marjolin and Barre played a key role).

Initially, DGII consisted of three directorates, reflecting the main preoccupations of macroeconomic policy-makers at the Commission. A first directorate, "National economies and business cycle", was responsible for monitoring the economic situation and the business cycle in the Community. The first director was Pierre Millet (F). At the end of the 1960s, Bernhard Molitor (D), later a senior official in the German Economics Ministry, became the director. The second directorate was "Monetary matters", with first Leonhard Gleske (D) as director, later a member of the Direktorium of the Bundesbank. In the mid 1960s, Frédéric Boyer de la Giroday (F) became the monetary director. Important tasks of the monetary directorate were the monitoring of the monetary situation (inside the Community but also the international monetary system) and the preparation of directives for the liberalisation of capital movements[12]. The third directorate was "Structure and development". In many ways, e.g. medium- term forecasts, sectoral analyses, and structural programmes, it bore a close resemblance to the (French) Planning Office. Its first director was Louis Duquesne

11 Von der Groeben argued in favour of a German Director-General. However, Hallstein preferred German Directors-General in the external DGs (von der Groeben, 1995, p. 302)
12 The focus of this paper is on macroeconomic and monetary issues. For a discussion of the issue of the liberalisation of capital movements, see Bakker, 1996.

de la Vinelle (B). Michel Albert (F), later Secretary-General of the French Planning Office, became the Director at the end of the 1960s. In 1967 a directorate for "Budgetary matters" was created by Barre, with Gerard Wissels (N) as director. Another influential person was the Secretary of the Monetary Committee. Initially the post of Secretary of the Monetary Committee was taken by a Head of Unit in the monetary directorate. Later it became a separate position, at the same level as a directorship. The first Secretary was Alain Prate (F), who later became an economic adviser to De Gaulle and a Vice-Governor of the Banque de France. He was succeeded by Roland de Kergorlay (F)[13].

Also very influential at the Commission was Robert Triffin, an advisor, but very close to Marjolin[14]. A flavour of Triffin's ideas can be found in his book "*Europe and the Money Muddle*", published in the spring of 1957, before the ratification of the Rome Treaties. Triffin was then already urging the (future) EEC members to go ahead and aim at the creation of a monetary union. Furthermore, he argued that:

> *Monetary unification would not require, in any manner, a full unification of national levels of prices, costs, wages, productivity, or living standards. [...] Neither does monetary unification require a uniformization of the budgetary economic, or social policies of the member countries. [...] The problem of monetary unification is therefore a political rather than an economic problem (Triffin, 1957, p. 228-229).*

Marjolin and Triffin had both been very much involved in the European Payments Union. They shared a certain nostalgia for the framework of policy coordination and surveillance of the European Payments Union.

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13 At the start of the Communities, the economic situation in France and the threat of French use of the safeguard clauses were major causes of concern (cf. Prate, 1991, p. 78). One can observe that many of the crucial positions for the assessment of the (French) situation were occupied by French persons. The economic situation would be discussed in the Monetary Committee, of which Prate was the Secretary. The report would be submitted by the Directorate of National Economies and Business Cycles (Millet) of DG II, for which Marjolin was responsible. Moreover, the Director General for the Internal Market was Ortoli.

14 An indication of Marjolin's appreciation of Triffin is given by his salary, which was at the level of a Director-General (Minutes of the Meeting of the Commission of 19-20/11/1958, COM(58) PV 38, secret part, Archives European Commission).

4 THE EUROPEAN COMMUNITY IN THE 1960s[15]

As discussed earlier, in the EEC Treaty macroeconomic and monetary issues were approached very much from a balance of payments perspective, as balance of payments problems could threaten the common market project. It is thus important to analyse the economic shocks which affected the European Community, and, especially, the balance of payments.

The balance of payments can be affected by "asymmetric shocks" hitting a Community country. The two most important asymmetric shocks occurred in France, in the late 1950s and in 1968. France in the late 1950s was seeing the final stages of the Fourth Republic. The political uncertainty and the war in Algeria contributed to a volatile economic situation. In these circumstances, monetary and fiscal policy were rather lax. In 1958 inflation exceeded 10% and the balance of payments showed a deficit (cf. Graph 1). This was a serious problem for pro-Europeans in France: how could France participate in the common market project with this kind of macroeconomic imbalances? It was also a major concern for the Commission, as senior French officials were thinking of using the safeguard clauses (Jeanneney, 2004). The Commission monitored the situation and drew up policy proposals. In December 1958, De Gaulle took radical measures, devaluing the French franc by 14.8% and introducing orthodox economic policies.

A second important "asymmetric shock" occurred in 1968, again in France, but also in certain other countries such as Italy. The student riots and social upheavals of May 1968 led to large wage increases. Strong attacks on the French franc naturally followed. The Banque de France had to intervene on the foreign exchange markets and increase interest rates. In June the French government even invoked the safeguard clauses and took protectionist measures. However, De Gaulle refused to devalue the French franc. Later, in August 1969, when Pompidou had become president, the French franc was devalued by 11.1% (cf. Table 3). This episode would have a deep impact on policy-makers in the European Community as it showed the fragility of the Bretton Woods fixed exchange rate system, even within the Community.

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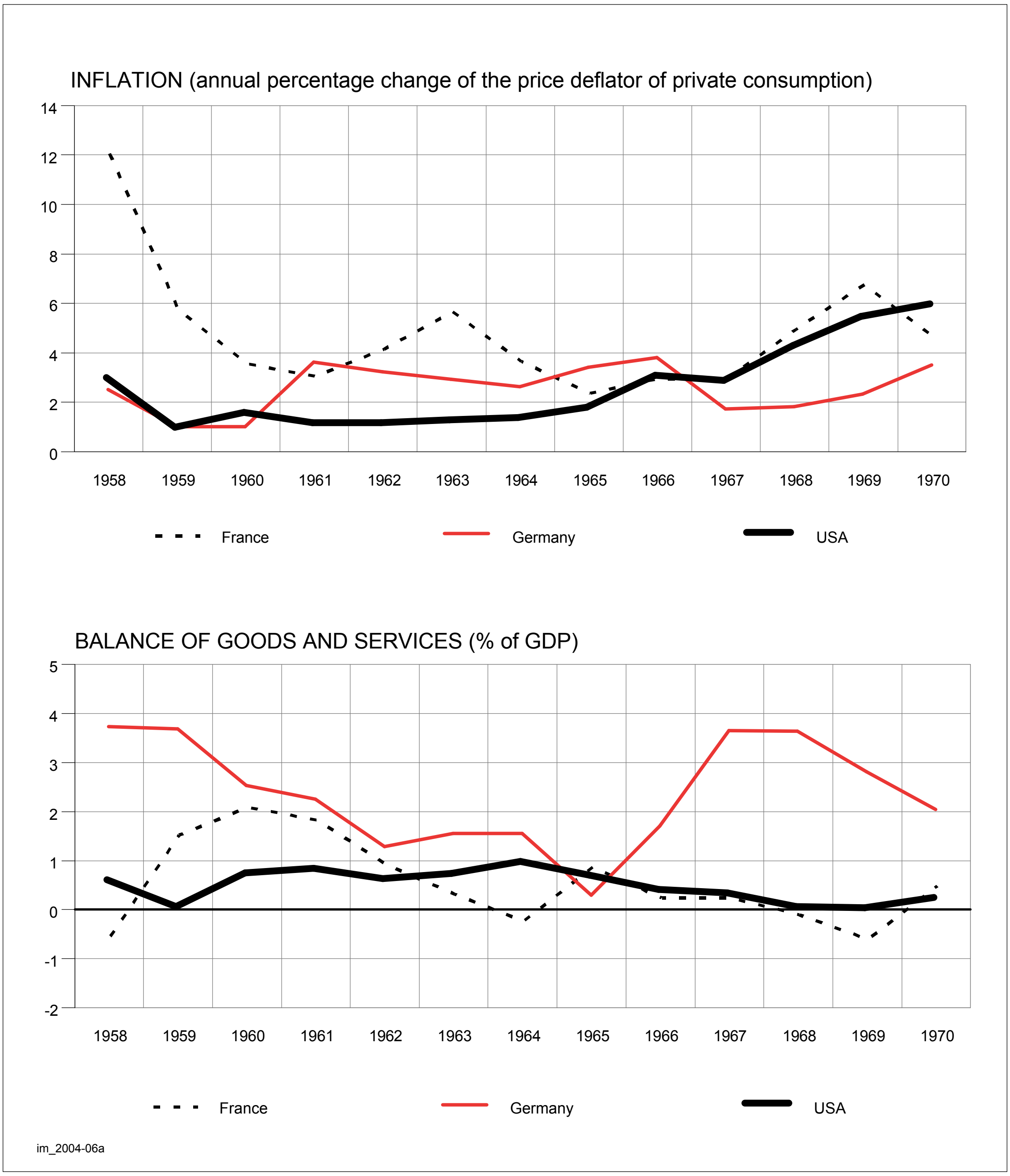
15 See also annex 3.

INFLATION AND THE BALANCE OF PAYMENTS



Sources: IMF (IFS) and OECD (National accounts).

Table 3 - Exchange rate developments

1958	December	The EEC countries (and four others) restore external convertibility Devaluation of the French franc (by 14.8%.)
1961	March	Revaluation of the German mark and Dutch guilder (by 5%.)
1967	November	Devaluation of Sterling (by 14.3%)
1968	June November	France takes safeguard measures for balance of payments crisis Group of Ten agrees on support arrangement for the French franc
1969	August September October	Devaluation of the French franc (by 11.1%) Floating of the German mark Revaluation of the German mark (by 9.3%)
1971	May August	Floating of several currencies (including the German mark) US suspends gold convertibility of the dollar

Source: Vanthoor, 1999.

As far as the external environment was concerned, for most of the 1960s the Bretton Woods system provided the European Economic Community with a favourable international monetary environment. Stable exchange rates, both between the countries of the European Community and with other countries, facilitated the integration process. However, academic discussions about the future of the international monetary system had already started, with Friedman's (1953) influential argument in favour of flexible exchange rates and Triffin's (1960) analysis of the flaws of the Bretton Woods System.

The United States took a central place in the Bretton Woods system. During most of the 1960s, especially the second half, the United States pursued expansionary monetary and fiscal policies (De Grauwe, 1989). Keynesian ideas, namely that the government had a responsibility for full employment, and the Vietnam war played a role in this. These expansionary polices led to accelerating inflation and a steady deterioration of the United States balance of payments (cf. Graph 1). Consequently, the dollar was increasingly felt to be overvalued. Moreover, as the other countries had to maintain a fixed exchange rate with the dollar, they were forced to import inflation. It constituted an "external shock" for the European Community. By March 1961, Germany and the Netherlands had already revalued their currencies, given their sizeable external surpluses. It was an early indication of the flaws of the Bretton Woods system. It also gave an indication to the countries of the European Community that the demise of the Bretton Woods system could cause problems for the common market project. It had an impact at the Commission and influenced Commission proposals. However, it was at the end of the 1960s that the real drama of the demise of the Bretton Woods system unfolded. Moreover, with the events of May 1968 in France, the French balance of payments also deteriorated. The main counterpart of the American and French balance of payments deficits could be found in Germany. The huge German balance of payments surplus put serious pressure on German policy-makers who saw their objective of price stability threatened

(Emminger, 1977). In October 1969, the German authorities decided to revalue the German mark, after letting it float for a month. The Bretton Woods system went into its final phase. In May 1971 several currencies started floating[16]. In August 1971 Nixon decided to "suspend" the gold convertibility of the US dollar.

5 THE "EUROPEAN RESERVE FUND" PROJECT

So, at the start of the EEC, the French macroeconomic and monetary situation was a matter of serious concern for the Commission (cf. Table 4). In May 1958 the French government demanded a derogation from Article 32, which concerned the use of trade quotas or equivalent measures (Minutes of the Meeting of the Commission of 3-4 June 1958, Com(58) PV 19, Archives of the European Commission). The Commission could not accept this French demand. It produced a report on the macroeconomic and monetary situation in France as well as policy recommendations (according to Article 108). Throughout 1958 the discussions between the Commission and the French authorities continued. The economic situation in France was also one of the main issues in the Monetary Committee.

Table 4 - Financial indicators on the eve of the Treaty of Rome

1957	Official reserves % imports	Current account % of GDP	Fiscal deficit % of GDP	Government debt % of GDP
Belgium	33.7	2.0	-0.4	63.6
France	11.9	-2.4	-4.9	33.2
Germany	68.5	2.7	-2.3	9.1
Italy	40.3	0.1	-1.5	45.0
Netherlands	25.6	-1.7	0.6	50.8

Source: Bakker, 1996, p. 35.

These discussions also led the Commission to reflect on how it could fulfil its role in the macroeconomic and monetary area. Marjolin, in collaboration with Triffin, drew up a proposal for the creation of a European Reserve Fund. This project was one of Triffin's most important topics of analysis during his time as an advisor at the European Commission[17]. Triffin reformulated his earlier ideas for a European Reserve Fund in an EEC framework (Maes and Buyst, 2004). It was

[16] In May 1971 the EC Council of Ministers also proposed the introduction of the "Monetary Compensatory Amounts" for intra-Community trade in agricultural products.

[17] Monnet played an important "background" role. He became interested in European monetary integration in the second half of the 1950s. It was a consequence of the French economic and financial crisis at that time, which threatened France's participation in the common market project (Perron, 2001). Typically, he put the French problem in a European perspective and turned to his network, especially Marjolin and Triffin, for technical advice.

discussed at DG II and Marjolin, in November 1958, presented a Memorandum to the Commission on the subject (see Annexes 4 to 8 in Ferrant & Sloover, 1990)[18].

Marjolin started from the observation that the EEC Treaty provided for the basic principles of the coordination of economic policies, but that the details of this coordination had not been properly worked out. So, to achieve the ambitions of the Treaty, some of its provisions needed to be supplemented and made more explicit[19]. Marjolin also argued for a common economic policy. This would provide a way of avoiding substantial divergences in inflation and employment, which would lead to balance of payments difficulties and the application of the safeguard clauses.

To put into practice the coordination of policies, Marjolin proposed to undertake regular surveys of the economies of the Member States, in which the main economic and financial policy issues would be discussed. Moreover, he proposed that the Community institutions could also formulate policy recommendations. The weight of these recommendations would be stronger if the Community had at its disposal resources to facilitate the organisation of financial solidarity. A European Reserve Fund could fulfil this role.

This European Reserve Fund could be constituted by pooling 10% of the international reserves of the Member States' central banks. The Fund would provide for different types of loans, both to assist countries with balance of payments difficulties and also to support economic growth. Marjolin also proposed that the accounts of the Fund would be expressed in a new unit of account.

The proposals gave a key role to the Commission in the macroeconomic and monetary area. It would have a leading role in the coordination of policies, and a member of the Commission would also be on the Executive Board of the European Reserve Fund.

The Commission discussed the project at its meeting of 20 November 1958. It agreed in principle with the project, but it postponed the discussion of the specific details to a future meeting (Minutes of the meeting of the Commission of 20 November, COM(58) PV 38, secret part, Archives European Commission). Triffin also promoted the idea actively in Paris (Triffin, 1958). However, in December 1958, De Gaulle devalued the French franc and introduced orthodox economic policies, re-establishing economic stability in France. The countries participating in the EPU then restored the external convertibility of their currencies in the framework of the Bretton Woods system. The proposal for a European Reserve Fund lost its "raison d'être".

[18] In an earlier Memorandum of 31 May 1958, Marjolin was more cautious, proposing a system of "stand-by" credit, not a European Reserve Fund (Archives Triffin).

[19] It is rather surprising that Marjolin does not refer to specific articles of the EEC Treaty.

6 THE COMMISSION'S ACTION PROGRAMME OF OCTOBER 1962

In October 1962 the Commission submitted a Memorandum which contained its Action Programme for the second stage of the European Economic Community (1962-1965). Walter Hallstein, the president of the Commission, drafted the political introduction, while all Commission members took part in the preparation of the programme, each dealing with his own area of responsibility.[20]

In the 1962 Memorandum the Commission pushed for the Rome Treaty to be interpreted in the maximum sense as implying the progressive realisation of full economic and monetary union and political union. Moreover, Marjolin advocated the idea of a medium-term policy for the Community.

The introduction very strongly emphasised the political character of European economic integration, which was intended to lead to the economies of the six Member States merging in a full economic union:

> *"What is called the economic integration of Europe is essentially a political phenomenon. Together with the European Coal and Steel Community and the European Atomic Energy Community, the European Economic Community constitutes a political union in the economic and social spheres." (Commission, 1962a, p.1)*[21].

Economic union implied the progressive merger of national economic policies in a common short-term and long-term economic policy. This further implied that the Community would fix long-term economic objectives.

The chapter on competition policy (the area covered by von der Groeben) clearly reflected German ordo-liberal ideas. It emphasised that competition was essential for the orientation of economic activity. Moreover, it went further, linking the economic and political regime: "The economic order must also guarantee the attainment of the maximum degree of personal freedom for all those taking part in economic and social life." (Commission, 1962a, p. 24).

[20] See also Hallstein 1961 and 1972.

[21] According to von der Groeben (1995, p. 339), Marjolin was more reluctant as he feared problems, especially with the French government.

In the chapter on economic policy (Marjolin's area), there was not only a plea for "a Community policy towards the business cycle" (p. 72), but also for a medium-term policy, "programming", at the level of the Community (p. 74)[22]. Several arguments were advanced for such "programming" at the Community level:

- to shed light on national and Community decisions the effect of which is only discernible after a certain time lag;
- an indispensable instrument for a rational redistribution of the limited financial resources of the Government;
- a necessary guide for national plans and programmes, as the growing openness of the economies increases the uncertainty for national actions[23];
- a framework for Community policies for agriculture, transport and energy;
- to support structural adjustments, especially regional development and industrial restructuring ;
- to support an incomes policy.

The Memorandum argued that programming would not go against competition policy, but would rather reinforce competition in the Community. The Memorandum further proposed that a "consolidated programme" be established for the period 1964-1968. This programme would define:

- desirable and possible developments in economic activity;
- long-term projections for government revenue and expenditure;
- the expected or desired distribution of gross domestic product between the main sectors of activity;
- a forecast of labour supply and demand;
- a forecast of how the volume of investment, corresponding to the needs of the Community, could be financed;
- the projected movement in the external balance of the Community.

Marjolin had been personally involved in the preparations to organise "programming" at Community level. The Commission also organised a conference in Rome in November 1962 to discuss these ideas (see Marjolin, 1963 and Morel, 1978).

22 In June 1962 the Commission published a report by a group of experts, chaired by Pierre Uri, on the economic prospects for the EEC from 1960 to 1970 (CEC, 1962c).

23 At the Planning Office in France the feeling was that the creation of the common market made planning in France more difficult. See also Benard, 1964.

In the chapter on monetary policy, another of Marjolin's areas, it was argued that monetary union could become the objective of the third stage of the common market (1966-1969)[24]. The Memorandum argued that monetary policy had a "vital importance" for the Common Market, as exchange rate fluctuations could disrupt trade flows. The Memorandum paid special attention to agriculture in this respect:

> *"Economic union, at least after the end of the transitional period, implies fixed exchange rates between the currencies of the Member States, subject to variations within very narrow limits. Any significant change would cause such severe disruption in the trade of countries no longer protected by any customs barriers and, because of the guaranteed Community intervention price for cereals and other basic agricultural products, would trigger such sudden changes in price levels for agricultural products and hence in farmers' incomes that the Common Market itself could be placed at risk." (Commission, 1962a, p.87).*

Monetary union was therefore not only a way forward for the Community (Andrews, 2002). It was considered as necessary to protect the customs union and the Common Agricultural Policy – a "single market" (with common prices) for agricultural products - from exchange rate fluctuations. The German revaluation of March 1961 had in this respect an important influence on policy-makers at the Commission, as it showed the vulnerability of the international monetary system (Gleske, 2001, p. 147).

For the second stage (1962-1965), the Memorandum proposed "prior consultation" for all important monetary policy decisions, such as changes in the discount rate, minimum reserve ratios, central bank loans to the State, changes in exchange rates, etc.

It is perhaps surprising that such an ambitious programme did not include the European Reserve Fund project of just a few years earlier. However, the "logic" of the Memorandum is rather different from that of the proposal for a European Reserve Fund. The Memorandum started from the common market and the common agricultural policy and explored the implications of those. It concluded that fixed exchange rates, and thus a monetary union, would be an inevitable consequence of the common market and common agricultural prices[25]. This rather contrasted with the proposal for a European Reserve Fund, a much more pro-active approach.

[24] Monetary union is not mentioned in the introduction of the Memorandum, but it figured in the article in the Bulletin of the EEC (Commission, 1962b). The chapter had been prepared in DGII, see the paper by Gleske "Die Währungs- und Finanzpolitik im Gemeinsamen Markt", June/July 1962, and Triffin's remarks (Archives Gleske).

[25] In a note to Hallstein of 11 September 1962, Meyer, Hallstein's deputy head of cabinet, argued that "The common agricultural policy is today sufficiently firmly rooted that this understanding of its implications for monetary policy could lead to difficulties" (Archives Gleske).

The Commission Memorandum received a mixed welcome. In Germany, the Frankfurter Allgemeine had an article entitled "Dangerous bridgehead for a new dirigism". Erhard criticised the Memorandum in the European Parliament. The List Society, one of Germany's most eminent economics associations, organised a three day conference in June 1963 with the theme "Planning without a planned economy" (Plitzko, 1964). Among the participants were Walter Hallstein and Hans von der Groeben, Alfred Müller-Armack, the State Secretary of the German Economics Ministry, and prominent foreign economists such as Oskar Morgenstern and Jan Tinbergen.

The Governors of the central banks of the Member States also discussed the Commission Memorandum[26]. They came out in favour of further progress in monetary cooperation between the countries of the Community and the creation of a Council of Central Bank Governors. However, they remarked that monetary coordination was also desirable in a wider framework than that of the Community, and that it could only be efficient if budgetary policy was coordinated as well. Moreover, according to the Governors, several issues, such as the reform of the international monetary system, mutual assistance and monetary union, had to be discussed first at the level of each Member State ("Note" of 10 December 1962, Archives ECB)[27].

The discussions led to adjustments in the Commission proposals. On July 26 1963 the Commission submitted a Recommendation to the Council, concerning the "Medium-Term Economic Policy of the Community" (CEC, 1963b). In this Recommendation, the Commission first stressed the role of the market as the most effective instrument to ensure the best use of available resources, and the need to maintain and strengthen competition. The Recommendation further argues that the state plays a decisive role in economic life: "It seems therefore to become more and more necessary that an overall view be taken, in terms of several years of coming economic development, so that state action can be made to fit into a coherent framework and will neither be inconsistent in itself nor upset the free play of the market except in so far as this is essential and expressly agreed to by all authorities concerned" (CEC, 1963b, p. 14). Two distinct elements were necessary to achieve this: the preparation of prospective economic studies and the formulation of a medium-term economic programme. In order to avoid the possibility of the projections being considered as growth targets, the Commission proposed that they should be produced by independent experts. On the basis of these forecasts, the authorities of the Member States and the Community could work out a common medium-term economic programme. To facilitate the formulation of this programme and to assist the coordination of medium-term economic policies, an advisory body, the "Medium-Term Economic Policy Committee", would be created. It would provide a stimulus for medium-term analysis at the Commission.

26 For the reaction of the Bundesbank, cf. Bernholz, 1999.

27 The Governors also asked for a legal analysis of whether the Council and the Commission had the right to establish regulations and directives and to take binding decisions for the central banks (La Politique Monétaire dans le cadre du Marché Commun, 4/12/62, Archives ECB).

On 24 June 1963, the Commission also submitted a Communication on "Monetary and Financial Cooperation in the European Economic Community" (CEC, 1963a). In that document, the Commission proposed creating two new consultative organs, the Committee of Governors of the Central Banks of the Member States of the European Economic Community and the Budgetary Policy Committee, as well as increasing the responsibilities of the Monetary Committee, especially in the area of international monetary matters. Furthermore, there was a draft decision relating to prior consultations between Member States in the event of changes in the parity of their currencies[28].

The new Commission proposals received a more favourable welcome and, in 1964, three new Committees were created (for Medium-Term Economic Policy, Budgetary Policy and the Committee of Governors). While the decisions of 1964 were a far cry from a monetary union, as proposed in the 1962 Commission Memorandum, they contributed to establishing the Commission as an actor in the monetary area. Firstly, they made it clear that the EEC Treaty gave a right of initiative to the Commission in the monetary area. Secondly, the Commission would be invited, as an observer, to the meetings of the Committee of Governors. This would give the Commission an entrance into the world of the central bankers[29]. During the first meetings of the Committee of Governors, Marjolin took the opportunity to present the Commission's ideas:

> *"But the main question, continued Mr Marjolin, is identified with the movement towards the creation of a monetary union. It is said that monetary union is not possible without political union. That is true, but if eight or ten years ago anyone had talked about unifying the prices of agricultural products everyone would have said that such a plan was not feasible; we should remember that, even without political union, the Community has to a large extent achieved economic union.*
>
> *The EEC Commission has now decided to submit proposals to the Council of Ministers, proposals which will aim to bring us closer to monetary union. (Minutes of the 2nd Meeting of the Committee of Governors, 12/10/64, Archives ECB).*

28 The Commission referred to the 4th annual report of the Monetary Committee, in which it was noted that the currency revaluations of 1961 had "not been preceded by adequate coordination at Community level" (CEC, 1962a, p. 37).

29 Something not unimportant. Thus, through his participation at the meetings of the Committee of Governors, Delors became convinced that the central bank governors had to be on the "Delors Committee".

7 THE BARRE MEMORANDUM

In the second half of the 1960s the international monetary situation deteriorated. The Commission became worried that, if the countries of the Community did not adopt a common position, the Community risked falling apart (Minutes of the 23rd Meeting of the Committee of Governors, 12 February 1968, Archives ECB). The Commission worked out a confidential Memorandum which it presented to the Council in February 1968.

The main aim of this “Memorandum on Community Action in the Monetary Sphere” (Wissels Archives) was to establish closer monetary relations between the countries of the Community. It was proposed that:

- 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.

The Memorandum was very short (two pages) and the proposals were not worked out in detail. They were very much in line with the voluntarist ideas which Triffin and Boyer were defending in DG II[30]. They were also quite in line with French ideas, in favour of a "European monetary identity", but without new supranational institutions (de Lattre, 1999).

The Commission proposals were criticised by Germany and the Netherlands, who argued that such a "one-sided monetary approach made no sense" (Szász, 1999, p. 11). The events of May 1968 and the ensuing crisis over the French franc, in which France invoked the safeguard clauses, also left their imprint (Paye, 2002, p. 116)[31].

In October 1968, Raymond Barre was quite sceptical about EMU and defended quite "economist-style" positions[32]. He declared in the European Parliament that, for EMU to succeed, a European

30 In August 1967, Boyer was drawing up proposals based on the "Triffin Treasury of smart ideas", Letter by Boyer to Triffin, 2/8/67, Archives Triffin.

31 Barre was one of the persons who played a key role in convincing De Gaulle that it was possible to avoid a devaluation of the French franc.

32 The debate between the "monetarists" and the "economists" came clearly to the foreground in the Werner Committee, where there were heated discussions about the priorities on the road to EMU. The "monetarists", with France as a dominant player, were in favour of plans for greater exchange rate stability and exchange rate support mechanisms. They saw a driving role for monetary integration in the process of European integration. The "economists", under the leadership of Germany, emphasised the coordination of economic policies and the convergence of economic performance, especially inflation, as a precondition for EMU. According to their view, the so-called coronation theory, monetary union could only be the last and crowning phase in the process of economic integration.

political authority was needed (Barre, 1968, p. 17). He further argued that monetary union would be the "crowning act" of economic union. Barre went for a rather pragmatic and two-sided approach, arguing that the main objective had to be a better coordination of both the economic and monetary policies of the Member States. The monetary proposals were less ambitious than in the February 1968 Memorandum. For instance, there was no longer any mention of the establishment of a single European unit of account[33].

These ideas were further developed in the so-called "Barre Memorandum" of February 1969 (Commission of the EEC, 1969). The Barre Memorandum started from the observation that the Community was “an original and complex economic entity”, composed of both national and Community elements. It underlined the growing economic interdependence between the Member States, implying that any incompatibility of policies and strategies could endanger the customs union. The Barre Memorandum then focused on three main lines of action:

a) convergence of medium-term economic policy. The Barre Memorandum proposed being more specific about the degree of convergence of the broad orientations of medium-term policy of the Member States and ensuring mutual compatibility. The Commission analysis thus blended the French medium-term approach with the German convergence analysis. The main objectives of these medium-term policies concerned economic growth, the movement of prices and the situation of the balance of payments.

b) the coordination of short-term economic policies. Here the emphasis was on sufficiently coherent short-term policies, so that the different economies did not develop in ways which diverged from the medium-term objectives. The Memorandum proposed the reinforcement and more effective application of the consultation procedures, before Member States decide on economic policies. The Memorandum also proposed a system of "early warning" indicators.

c) a Community mechanism for monetary cooperation. The proposed Community mechanism for monetary cooperation had to be composed of two parts: one for short-term monetary support and one for medium-term financial assistance.

Compared with the 1962 Action Programme, the Barre Memorandum is clearly much more modest and pragmatic. This is not surprising given the lack of political will, especially - but not only - in the France of de Gaulle, and the increasing divergence of national economic situations, especially with regard to inflation and the balance of payments.

The Barre Memorandum is also characterised by a special mixture of traditional German and French ideas. This is most clear in the first part of the Memorandum, on "Convergence of medium-

[33] A typical Triffin idea.

term economic policy ". Here the French-inspired medium-term analysis is applied to the German notion of economic convergence. By doing so, it signalled heightened concern at the Commission concerning the disparities in prices and costs in the Community countries (Note SEC(68) 3958 of 5/12/68, p. 11, Archives NBB).

The Commission's ideas for closer monetary cooperation between the Community countries initially drew quite mixed reactions from the central bank governors. At their meeting of December 1968, Carli (I), while admitting the political nature of the issue, stated that he was "perplexed" at the possibility of closer monetary cooperation at Community level. He argued that the Community covered rather too small an area. Moreover, the Community constituted only a customs union and not an economic and political union (Minutes of the 27th Meeting of the Committee of Governors, 9/12/68, Archives ECB). Blessing (D) and Zylstra (N) agreed with him, while Brunet (F) and Ansiaux (B) took more subtle positions.

At their meeting in March 1969, the Governors stressed that the coordination of economic policies was the most important issue. After a thorough discussion, Ansiaux concluded that a mechanism for monetary cooperation "can be justified more on political than on economic grounds, and from that point of view we cannot be totally negative" (Minutes of the 29th Meeting of the Committee of Governors, 10/3/69, Archives ECB). After further technical monetary discussions, a Community Mechanism for Short-term Monetary Assistance was created in February 1970.

8 THE HAGUE SUMMIT

In December 1969, at the Hague Summit of the Heads of State and Government, an ambitious programme to relaunch European integration was established. It comprised a completion (the common agricultural policy), a widening (enlargement) and a deepening (economic and monetary union) of the Community.

Several factors contributed to the change in atmosphere that placed enlargement and economic and monetary union in the spotlight: the successful completion of the customs union; disenchantment with the central position of the American dollar in the Bretton Woods system; fears about the future of the fixed exchange rate system with the ensuing threats for the customs union and the common agricultural policy; the coming to power of new political leaders both in France (Georges Pompidou) and Germany (Willy Brandt).

The fact that Brandt became German Chancellor was very important. Brandt was a convinced European federalist and very much pro-EMU, as were Gaston Eyskens (B) and Pierre Werner (L). Brandt was a member of Jean Monnet's Action Committee for the United States of Europe, which he consulted in order to prepare for the Hague Summit. Monnet appealed to Triffin, who drew up a proposal for a European Reserve Fund (Monnet, 1976, p. 610).

Raymond Barre, in a Note for the Commission of 21 October 1969, was critical of these proposals:

> *"For several months now there has been renewed talk of a “European currency”, a “European Reserve Fund”. The Monnet Committee came out in favour of the creation of such a fund. I have told the Commission on various occasions that I do not feel that it is desirable to support such ideas at the moment.” (Raymond Barre, Note pour la Commission, 21 October 1969, Snoy Archives)*

Barre remained convinced that the time was not ripe for such an ambitious project as EMU, especially given the divergences in economic policy and performance in the Community. He was in favour of a more pragmatic approach.

At the Hague Summit the Heads of State and Government requested the Council to draw up a plan with a view to creating an economic and monetary union. The Council decided to create a committee. It was chaired by the Luxembourg Prime Minister, Pierre Werner, and produced a report in October 1970 (Council-Commission of the European Communities, 1970, commonly known as the Werner Report).

The Werner Report proposed a "symmetric" EMU, with two new Community institutions: a centre of decision for economic policy and a Community system for the central banks. This also implied a revision of the EEC Treaty. It also proposed a scheme for attaining EMU in three stages. However, it did not lay down a precise timetable for the different stages, preferring to maintain a measure of flexibility while concentrating on the first phase.

Immediately after its publication, the Werner Report was heavily criticised by the orthodox Gaullists in France (Achard, 2002). Their criticism centred on the supranational elements of the Report. It induced a change in the policy of the French government. The new Commission proposals, based on the Werner Report, were more modest. In particular, the creation of new Community institutions was dropped. This provoked criticism in the Council, especially from Germany.

Amid the international monetary crisis, which reached a climax with Nixon's suspension of the gold convertibility of the dollar in August 1971, progress on European monetary integration was difficult. However, the Paris Summit of October 1972 further confirmed the aim of economic and monetary union and set January 1974 as the date for the transition to the second stage. In March 1973 it was decided to limit intra-EEC fluctuation margins to 2.25 p.c., instead of the 4.5 p.c. of the Bretton Woods system (after the Smithsonian Agreement of December 1971). It would lead to the creation of the "European snake" in the "Bretton Woods tunnel".

However, this first attempt at EMU was not successful. Fundamentally, it failed not only due to the unstable international environment (the collapse of the Bretton Woods system and the oil crisis), but also because the process of European integration was not sufficiently far advanced to make monetary union a realistic objective (Maes, 2002). National governments were still strongly attached to their national sovereignty as well as to the pursuit of national economic objectives. In Germany, priority was given in the first instance to the fight against inflation, while in France economic growth was considered a more important objective. This view was supported by the then influential theory of the Phillips curve, according to which there was a stable relationship between inflation and unemployment. Policy-makers could then select their preferred trade-off between inflation and unemployment.

9 CONCLUSION

In the early years of the Community, the Commission developed ambitious ideas for pushing forward European integration. In November 1958, Marjolin presented a project for a European Reserve Fund at a meeting of the Commission. With the 1962 Action Programme, the Commission pushed for a maximum interpretation of the EEC Treaty, calling for economic and monetary union, a medium-term policy for the Community, and political union. It encountered heavy resistance, as both France and Germany were against such a broad transfer of sovereignty. Moreover, the idea of programming was taboo for Erhard, the German economics minister. The 1969 Barre Memorandum was much more modest and pragmatic. It proposed a two-pronged approach: both short-term and medium-term policy coordination to avoid economic imbalances, and a Community mechanism for monetary cooperation to alleviate pressures on the foreign exchange markets.

The modesty of the Barre Memorandum contrasts with the ambitions of the Hague Summit, where Europe's political leaders, especially Brandt, Eyskens and Werner set the tone for a "great leap forward" in the monetary area. However, the plans for EMU did not get very far in the 1970s, as there had been little change in the fundamental underlying factors. Gaullist resistance against supranational European institutions quickly mounted. Moreover, the international environment was not very favourable, with the breakdown of the Bretton Woods system and the first oil shock. In this climate, policy divergences increased, leading to balance of payments imbalances and upheaval on the European exchange markets. EMU faded quickly from the agenda. However, while the aims of the Hague Summit were too ambitious for the 1970s, their utopian vision and their affirmation of EMU as an objective of the Community would give direction to Europe's policy-makers in the ensuing decades.

Economic thought at the Commission was strongly policy-oriented, focussing on policy problems and issues. It centred on economic imbalances in the Community, especially inflation divergences and balance of payments disequilibria, as well as exchange rate changes. The 1958 project for a European Reserve Fund was inspired by the quite dramatic economic imbalances in France. The 1961 exchange rate realignment was one of the elements behind the plan for monetary union in the Second Action Programme. The French economic imbalances after May 1968, when France used the safeguard clauses, were a driving factor behind the Barre Memorandum.

In its analysis, the Commission always concentrated on the effects on European integration. In doing so, the Commission took both a defensive perspective, focussed on preserving the "acquis communautaire" and especially avoiding recourse to the safeguard clauses, as well as a more pro-active view, with the aim of stimulating the process of European integration. From an analytical point of view, the Commission focussed on the compatibility of policies in the Member States.

Gradually, a typical Commission analysis developed, based on a blending of German convergence ideas with the French medium-term approach.

In the monetary area, the Commission focussed on the internal dynamics of the European integration process, with the need for improved monetary cooperation to preserve the common market and the Common Agricultural Policy. This contrasted with the analysis of the central bankers, who took the international monetary system as the framework for their analysis. One can also witness the ascent of the Commission as an actor in the monetary field. The EEC Treaty accorded only a limited role to the Commission in the monetary area. During the 1960s, the Commission's influence increased. In 1964, with the creation of the Committee of Governors, the Commission acquired a place in the central bankers' club. In 1970, Barre succeeded in pushing through the creation of a Community Mechanism for Short-Term Monetary Assistance, despite the initial reluctance of the central bank governors.

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Annex 1 - List of persons interviewed*

- Jean-Paul Abraham (B), European Coal and Steel Community (6-6-2000)
- Michel Albert (F), Director DG II (9-11-2000)
- Raymond Barre (F), Vice-President of the Commission, Economic and Financial Affairs (6-12-2001)
- Georges Berthoin (F), Chef de cabinet of J. Monnet (30-10-2002)
- Daniel Cardon (B), Chef de cabinet of A. Coppé (15-5-2001)
- Roland de Kergorlay (F), Secretary of the Monetary Committee (27-11-2001)
- Jean Flory (F), Chef de cabinet of R. Marjolin (5-12-2001)
- Franz Froschmaier (D), Advisor to H. Von der Groeben and W. Haferkamp (16-7-1997, 6-5-2004)
- Leonhard Gleske (D), Director DG II (18-12-2001)
- Andreas Kees (D), DG II (28-11-2001)
- Manfred Lahnstein (D), Chef de cabinet of W. Haferkamp (11-6-2002)
- André Louw (B), DG II (22-8-1997, 24-7-2001)
- Pierre Millet (F), Director DG II (20-2-2003)
- Bernhard Molitor (D), Director DG II (8-3-2001)
- Jean-Claude Morel (F), Head of Unit DG II (17-8-2000, 5-11-2000)
- François-Xavier Ortoli (F), Director-General DG III (4-12-2001)
- Jean-Claude Paye (F), Chef de cabinet of R. Barre (23-3-2001, 8-1-2003)
- Giovanni Ravasio (I), DG II (10-4-2002)
- Ludwig Schubert (D), DG II (25-8-2000, 25-4-2001)
- Umberto Stefani (I), Assistant to the Director-General, DG II (31-10-2001)
- Roland Tavitian (F), Director DG II (14-11-2003)
- Robert Toulemon (F), Chef de cabinet of R. Marjolin (23-1-2002)
- Paul van den Bempt (B), DG II (5-6-1997)
- Hans von der Groeben (D), Member of the Commission, Competition Policy (23-7-2001)
- Manfred Wegner (D), DG II (2-9-1997)
- Gerard Wissels (N), Advisor to D. Spierenburg, Director DG II (10-1-2003, 18-3-2003)

* Persons at the Commission during the period under consideration. Function relating to this paper and date of the interview.

Annex 2 - The regular tasks of the Monetary Committee

(a) At each monthly meeting in the *tour d'horizon* recent policy measures and economic developments are reviewed, as well as recent exchange rate and interest rate developments.

(b) Twice a year the *monetary policy in the Community* is reviewed. The year-end exercise includes a discussion of monetary targets for the following year.

(c) Two or three times a year the *economic and monetary situation of one member country* is examined in depth. In addition the extent to which a country respects the policy conditions attached to Community loans is reviewed regularly.

(d) Twice a year the *statement to the (IMF) Interim Committee* on behalf of the Community is prepared.

(e) Once a year *bilateral consultations* are held by the chairman with prospective members states.

(f) Once a year the existing *exchange restriction* and derogations are examined with a view to recommending possible abolition.

(g) Twice a year a *multilateral surveillance* exercise is conducted on economic policies in member states with a view to promoting convergence.

Source: Bakker, 1996, p. 65.

Annex 3 - Main Events

1958	January	EEC and EAEC Treaties take effect
	December	The EEC countries (and four others) restore external convertibility
		Devaluation of the French franc (by 14.8%.)
1961	March	Revaluation of the German mark and Dutch guilder (by 5%.)
	November	France presents the "Fouchet Plan"
1962	January	CAP is introduced (creating a single market for agricultural products)
	October	Commission Action Programme for Stage 2
1964	April-May	Establishment of the Committee of Governors, the Committee on Medium-term Economic Policy and the Budgetary Policy Committee
1965	June	Empty chair policy by France
1966	January	Luxembourg compromise
1967	November	Devaluation of Sterling (by 14.3%)
1968	June	France takes safeguard measures for balance of payments crisis
	November	Group of Ten agrees on support arrangement for the French franc
1969	February	Commission Memorandum (Barre Plan)
	August	Devaluation of the French franc (by 11.1%)
	September	Floating of the German mark
	October	Revaluation of the German mark (by 9.3%)
	December	The Hague Summit

Source: Vanthoor, 1999.

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