The Potential of a Caterpillar: or The Origins of European Monetary Integration

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[This is a draft of the early part of a history of European monetary integration, in which I will deal the general issues laid out here. I am trying to the story of a caterpillar with a cumbersome name (the Committee of Central Bank Governors of the Member Countries of the European Economic Community) that eventually turned into a chrysalis (the European Monetary Institute) and then became a beautifully winged butterfly (the European Central Bank). Yet the history of a caterpillar by itself may not be that interesting, although this history will discuss the anatomy of the caterpillar as well as its windings and writhings as it tried to respond to the challenges posed by the environment in which it functioned. No one would really want to claim that it was the actions or the intent of a caterpillar that make it transform itself. That is true of the story of the CCBG too. The central bankers who constituted it quite properly never saw it as their task to make big scale political decisions about the structure of the European Community or the political framework needed to support a monetary union. In depicting the broad institutional evolution, the history inevitably has to include a discussion of how at particular crisis moments, corresponding often to problems of the global financial order that strained European politics and required institutional innovation, politicians produced new and increasingly sophisticated responses: in the early 1970s, during the crisis of the Bretton Woods or par value system, when the European Economic Community commissioned a report on monetary union (the Werner Report) and when the CCBG evolved a new structure of experts' groups to support its work; in the late 1970s, when the weakness of the dollar pushed European leaders to establish the European Monetary System along with an Exchange Rate Mechanism; and above all, in the late 1980s and early 1990s, when in the aftermath of a failed attempt at international currency coordination (in the Plaza and Louvre meetings of the G-5/G-7 Finance Ministers) first in the Delors Committee and then in the work preceding the Maastricht Treaty a precise blueprint for the establishment of monetary union was laid out. But the history will also examine how the genetic make-up of the caterpillar – in other words, the structural characteristics that followed from the creation of the EEC – established the potential to develop into the butterfly.]

The debates about European monetary coordination may be seen in two quite contrasting ways. First is what may constitute the most unique part of the European integration process: the story of the institutional origins of a novel way of ordering the issuing of money. In retrospect, that may also seem the most adventurous or even dangerous element of the European dynamic, whose success – or possible failure – lies at the heart of the whole effort to institutionalize national reconciliation and cross-national exchange. But the monetary integration was only realizable because of a partial obscuring or forgetting of the adventurous side of the exercise. To the extent to which it succeeded, the advance of European integration depended on dropping as much as possible of the "vision thing". There is thus a quite different, second and more mundane, way of seeing the path to monetary union.

At the time, the negotiations were generally seen as part of the overhaul of the financial architecture for managing the restored international monetary regime of the 1960s (generally known as the Bretton Woods order). There were quite practical issues involved in the second debate: how should exchange rates be altered in a system of fixed and flexible rates without distorting trade patterns within what started off as a customs union; how should financial support packages be designed?

The two stories, the teleological tale of the development of Europe's money and of Europe's identity, and the practical one of managing the concrete challenges of the Bretton Woods order, are of course not identical, but they are tangled up with each other, and it is the constant and intricate intertwining that produced problems and paradoxes.

The Committee of Central Bank Governors of the Member Countries of the European Economic Community was not established as part of the original architecture of the EEC. Nor, very obviously, was it envisaged as the embryo of a future of European Central Bank, though that paradoxically is what it would become. It was created concretely to provide a specifically European mechanism and voice in the discussion and resolution of global monetary issues. In general, indeed, at the beginning, the global and the regional are closely linked. And that linkage continued to be a constant theme.

European Monetary Union is a quite unique process, that has nevertheless a subject of great fascination in other parts of the world: in the Gulf region, where there are periodic discussions of monetary unification, as well as in Asia and Latin America, where movements towards greater monetary integration also have some support but encounter a plethora of difficulties and obstacles.

The difficulties are the consequence of institutional and technical, but also psychological aspects of the evolution of monetary coordination into monetary union: the non-state character of the integration process; the relationship of regional changes to debates about reform of the international monetary system; and the habit of attaching grand geo-political ambitions to a currency (what a Freudian psychologist might call dollar-penis-envy).

First, the European monetary union occurred outside the framework of a conventional state. It is a "pure" act of money creation, in that money is divorced from the fiscal activities of the state. There is no obvious fiscal counterpart to the monetary authority. Many commentators, including participants in the process of building monetary union, worried about the absence of a corresponding fiscal union, and feared that the result would be uncertainty and instability.[1]

In opting for a pure money, Europeans flew in the face of the dominant tradition of thinking about money. The creation of money is most usually thought to be the domain of the state: this was the widely prevalent doctrine of the nineteenth century, which reached its apogee in Georg

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[1] Otmar Issing, Hayek: Currency Competition and European Monetary Union, +IEA Hayek memorial speech, May 27, 1999, available as: http://www.ecb.int/press/key/date/1999/html/sp990527.en.html.

Friedrich Knapp's highly influential *State Theory of Money*.[2] Money could be issued by the state because of government's ability to define the unit of account in which taxes should be paid. In the *Nichomachean Ethics*, Aristotle explained that money owes its name to its property of not existing by nature but as a product of convention or law.[3] Greek coins usually carried depictions of gods and goddesses, but the Romans changed the practice and put their (presumed divine) emperors on their coins. In the New Testament, Christ famously answers a question about obedience to civil authorities by examining a coin and telling the Pharisees, "Render unto Caesar what is Caesar's." Unlike most banknotes and coins, there is no picture of the state or its symbols – no Caesar – on the money issued and managed by the European Central Bank. Especially in the nineteenth century, the formation of new nation-states was associated with the establishment of national moneys, which gave the new polities a policy area in which they could exercise themselves.[4]

True, there were alternative traditions, which emphasized either a natural law origin of money, or hypothesized on a contractual origin of monetary arrangements. In natural law theory, money represented an intrinsic good or value, and the theory dealt well with the problem of the interrelationship of different monetary standards in varying political structures. [5] Alternately, it is possible to conceive of money arising out of conventional agreements about the exchange of goods, between parties that are not necessarily in the same political unit. Aristotle in the *Politics* set out a theory of money as

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2 Georg Friedrich Knapp, *Staatliche Theorie des Geldes*, Leipzig: Duncker & Humblot, 1905.

3 Book V: "money has become by convention a sort of representative of demand; and this is why it has the name 'money' (nomisma)-because it exists not by nature but by law (nomos) and it is in our power to change it and make it useless."

4 Eric Helleiner, *The making of national money : territorial currencies in historical perspective*, Ithaca : Cornell University Press, 2003.

5 See Benn Steil and Manuel Hinds, *Money, markets, and sovereignty*, New Haven: Yale University Press, 2009.

arising out of exchange, a theory that seems at odds with the account in the *Nichomachean Ethics*.[6]

Maybe either of these alternative theories is better situated in explaining what happened in the creation of the institutional framework for a European money. In particular, it is striking that in discussions of monetary union, there was a focus not on who was to issue a new currency, but what its characteristics should be: above all, how monetary stability could be achieved. The supranational character of a new money was often perceived as a valuable instrument in a fight against the scourge of inflation, since national moneys were too easily manipulated in accordance with national political preferences: especially in weaker or more insecure political systems. Supranational money was impossible as long as different countries had very different levels of inflation, in short as long as there was no consensus about the desirability of anti-inflationary policy. The process of monetary integration was thus accompanied by an intense reflection about what money is and what money should do. Some commentators have in consequence suggested that "money becomes the operative hinge-concept for European identity."[7]

Central banks were historically created first to manage the state's credit: this is the story of the oldest central banks, the Swedish Riksbank, the Bank of England, as well as of a newer wave of central banks that followed the example of the Banque de France: the Norwegian and Finnish banks. It was conversely suspicion of the politics behind a designated state-oriented central bank that led to the non-renewal of the charters, and the demise, of the First and Second Bank of the United States. In the mid-nineteenth century, a new generation of central banks was established essentially to

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[6] See Curzio Gianninni, The age of Central Banks, London: Edward Elgar, 2011; Carl Menger, *tze der volkswirthschaftslehre* ller, 1871.

[7] J. Peter Burgess and Bo Stråth, "Money and Political Economy: from the Werner Plan to the Delores Committee and Beyond," in (eds.) Lars Magnusson and Bo Stråth, *From the Werner plan to the EMU : in search of a political economy for Europe*, Buussels: Peter Lang, 2001, p. 128.

manage payments systems, and stabilize fragile banking systems: this was the motivation behind the German Reichsbank (1875) or the Federal Reserve System of the United States (1914).

The European Central Bank was not designed as a fiscal agent of the European Community or its member states, indeed that role was intended to be played by a second body: the European Monetary Cooperation Fund (EMCF, but often referred to by its French initials as FECOM). The EMCF began with very high ambitions, but in practice remained a rather subsidiary and shadowy institution. The director of the institution, which was housed in the BIS building in Basel and had a staff of just six, Jean-Claude Dagasson, was described rather satirically in the early 1990s in the following terms: "He is monetary Europe. More exactly, the living part, the bud of the European Central Bank." [8] The EMCF in practice was managed by the BIS, although its board was composed of the EEC central bank governors, so that it was in effect a parallel institution to the Committee of Governors. But unlike the CCBG, it was an institution of the EEC, and hence the governors regarded its institutional space with suspicion.

Neither was the ECB primarily designed as a support of a banking system. Though there were debates at the founding era in the late 1980s and early 1990s about whether it should play a central part in banking supervision and regulation, that question was answered negatively. The most powerful European central bank, with the strongest voice in debates on monetary union, the German Bundesbank, was in general highly sceptical about arguments that the central bank should have a prominent role as a LLR. No, the ECB was designed as a non-state actor whose primary purpose was the issue of money – the kind of institution that had basically only been imagined before the 1990s by Friedrich Hayek and some of his wilder disciples. By the time of the monetary union, some influential interpreters even saw Hayek as one of the inspirations. As Otmar Issing

[8] Philippe Jurgensen, *Ecu, naissance d'une monnaie*, Paris : J.C. Lattès, 1991, p. 145.

put it, "many strands in Hayek's thinking that may have influenced the course of the events leading to Monetary Union in subtle ways. What has happened with the introduction of the euro has indeed achieved the denationalisation of money, as advocated by Hayek." [9]

The monetary arrangements for the currency union also evolved in a way that showed a striking distance from the institutions of the European Union or European Community. The Committee of Central Bank Governors of the Member Countries of the European Economic Community originated in 1964. But it was not a European Community institution, and its regular meetings were not in a member country, but rather in Basle, Switzerland, because of the location of the Bank for International Settlements. From the beginning this location meant that the new body would play with the geometry of power, or engineer what later came to be called variable geometry. All the member countries were represented in the Committee (with the exception of Luxembourg, which was already in a monetary union with Belgium), but as the Committee began to devise new monetary arrangements in the 1970s, they excluded some member countries. At the same time, the Committee devised association arrangements to work with non-EC members, notably Norway, Sweden and Switzerland. This development was welcomed by the EEC Commission as a contribution to an enhanced integration process: Denmark, Ireland and the UK all participated in the CCBG well before they joined the EEC. The repercussions of the locational peculiarity and consequent flexibility and openness were felt for a long time. The Treaty of Maastricht, which laid down the timetable to monetary union, did not end this peculiarity of the separation of European monetary institutions from European Community or Union constitutionalization. It only found an end in the provisions of the Lisbon Treaty.

Even more surprisingly, the monetary bodies existed at a considerable distance not just from public opinion (which in

[9] Otmar Issing, "Europe : Political Union through Common Money," IEA Occasional Paper 98, February 1996.

many countries was quite sceptical of the project of monetary integration), but of governments. In the critical stages of the negotiations in the 1990s, Chancellor Helmut Kohl worried about losing the Mark, which had been the post-war German success story; while François Mitterrand was alarmed about giving up what he hand his advisers felt to be an essential element of national sovereignty. Governments were being asked to renounce what for most of the twentieth century had been a major constituent of power – monetary power.

Nevertheless, from the beginnings of discussions on the possibility of European monetary union in the 1960s, it was clear to many participants that some support mechanism – short term lending facilities, or regional funds – would be required to go alongside the new monetary mechanisms. And such transfers would be likely to involve governments if they were more than a short-term revolving credit.

The locational oddity (both physical as well as political and constitutional) underscores a second crucial feature of the story of this book. The debate about an institutionalization of European monetary arrangements always took place in a wider context of discussions of the global financial system and its problems. Debates about new institutional mechanisms (such as a basket currency) that took place on the global level were also replicated with respect to European affairs. The Committee was originally created in 1964. But it had little real life until the early 1970s, when it developed into a focal point for coordinating the European response to the breakdown of the par value system. The two crucial successful surges of European monetary institutionalization both followed an acute crisis in the international system. The creation of the European Monetary System in 1979 was a self-conscious response to the rapid decline of the dollar in 1977-8 and the search for a new mechanism internationally to replace the dollar standard. Later, the process that led from the report of the Delors Committee in 1989, through the Treaty of Maastricht to the legal realization of the Euro in 1999 and the establishment of the physical currency had its origins in an attempt to devise mechanisms in the mid-1980s that would generate a more stable global exchange rate regime. The critical policy innovators, in particular the French Finance Minister Edouard Balladur, took an international answer and started to advocate its realization on the European level.

There is, however, another respect in which the monetary union is unique. It was driven not just by technical concern with adjustment in the international monetary system, but also by a large scale political vision. In the 1960s, European statesmen – and in particular French policy-makers – criticized the political benefits that the United States was supposed to draw from the fixed exchange rate regime of the Bretton Woods order. Finance Minister Valéry Giscard d'Estaing termed this the "exorbitant privilege" in 1965; President Charles de Gaulle explained to Alain Peyrefitte that "no domain escapes from American imperialism. It takes all forms. The most insidious is that of the dollar." [10] De Gaulle's successor, Georges Pompidou, saw European monetary union as a "card" which Europeans could play in an international power game. And later, as President of the French Republic, Giscard, together with German Chancellor Helmut Schmidt, saw politics as the major reason why Europeans needed to act in the monetary sphere. As Schmidt told Giscard: "The Americans need to stop believing that if they whistle, we will obey." [11] The politicians who took this approach consistently believed that money was much too important to be left to technocrats and central bankers; and Schmidt at the highpoint of the debate in the late 1970s went to the Bundesbank to lecture the conservative bankers about the primacy of politics. If European power politics prevailed, the creation of a European order looked like a challenge to the U.S.-based global system. As British Prime Minister James Callaghan, a veteran of many British struggles with the IMF, put it: "I think there comes a clear question – do we try to

[10] Alain Peyrefitte, *C'était de Gaulle*, Paris: Gallimard, 2002, pp. 603, 663.
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build a world monetary system or are we going to have a European one." The European Commission President, Roy Jenkins, replying to Callaghan, stated: "I think we might move to a substantially more coordinated European monetary position which could help to create a better world monetary position." [12]

It was the constant and inevitable clash between the two logics – the one political seeing European money as an instrument of power politics, and the other technocratic, in which European monetary integration was simply a more feasible version of a desirable international cooperation – that resulted in the peculiar dynamic that created Europe's money. To work effectively, the European monetary order had to be insulated from political pressures and from the grand vision; but that itself produced a substantial vulnerability as national politicians would set themselves at odds with European money.

The Committee formed a critical element in the debate. Was it an instrument of European cooperation, designed to produce European answers as an alternative to the institutions of global governance; or was it part of a process of making the global monetary order more stable? What was its precise relation to the EEC, as it evolved in part deliberately outside the carefully planned institutional framework of the Community? The institutional indeterminacy of the Committee makes its development a striking contrast to that of the European Economic Community, whose future was laid down by the founding document in a built-in teleology.

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At the time the EEC was established as a consequence of the 1957 Treaty of Rome, there was no effectively operating international monetary system. It was only at the end of the

[12] NA, PREM 16/1615, Couzens note for Wicks, March 31, 1978; PREM 16/1641, Prime Minister's conversation with Mr. Roy Jenkins on 31 March 1978.

1950s that European governments undertook the transition to current account convertibility required by the Bretton Woods Agreement. But once that move had occurred, a series of questions were raised that seemed to require a European response if the logic of the integration process was to be followed. As it was, instead, questions such as exchange rates and financial support packages were discussed within the framework of a transatlantic dialogue rather than as an issue of a European family. The debate about monetary rapprochement was a way of shifting from the international or global to the European setting.

The European Economic Community began to operate on January 1, 1958. The Treaty of Rome that established the EEC opened with a bold and inspirational preamble that referred to "the foundations of an ever closer union among the European peoples;" and a decision to "ensure the economic and social progress of their countries by common action in eliminating the barriers which divide Europe." Economic harmonization was to drive a much broader process of reconciliation and pacification. The makers of Europe were building on an old and profound liberal insight that went back to Montesquieu, that increased commerce reduces tensions and removes the causes of war.

The Treaty more particularly provided for the eventual liberalization of markets for services and for labor, as well as providing for an eventual free movement of capital. Article 67 stipulated that:

1. Member States shall, in the course of the transitional period and to the extent necessary for the proper functioning of the Common Market, progressively abolish as between themselves restrictions on the movement of capital belonging to persons resident in Member States and also any discriminatory treatment based on the nationality or place of residence of the parties or on the place in which such capital is invested.

2. Current payments connected with movements of capital between Member States shall be freed from all restrictions not later than at the end of the first stage.

In addition, Article 68 required authorizations for exchange transactions to be granted in the "in the most liberal manner possible." In part in consequence, the member countries of the EEC moved quickly to fulfill the international obligations of the Bretton Woods Agreement (Article VIII) quickly, after a long period in which it had seemed that most countries would find it impossible to move to current account convertibility. Between 1958 and 1961 the EEC member states adopted current account convertibility according to IMF criteria. The EEC Commission continually pressed in addition for the lifting of capital controls, with little appreciation of how such a move would limit the scope for monetary policy: perhaps because the intellectual climate of the time gave little attention or priority to monetary policy.

A basic economic policy framework was provided in Article 104:

> "Each Member State shall pursue the economic policy necessary to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while ensuring a high level of employment and the stability of the level of prices."

In order to make coherent economic policy across the EEC, some degree of harmonization was required, with obligations on member countries and responsibilities of the newly established EEC Commission. The Monetary Committee, composed of representatives of Finance Ministries and central banks, was set up under Article 105 (2) of the Treaty of Rome. Its function as laid down in the Treaty was to observe the monetary and financial policies and general payments systems of the Member States and, more generally, to "promote the co-ordination of the policies of Member States in monetary matters to the full extent necessary for the functioning of the Common Market." It was given the following tasks:

- "to keep under review the monetary and financial situation of Member States and of the Community and also the general payments system of Member States and to report regularly thereon to the Council and to the Commission;" and

- "to formulate opinions, at the request of the Council or of the Commission or on its own initiative, for submission to the said institutions."

Section 1 of the same Article spoke of an obligation of government to "coordinate economic policies." Exchange rate policies were a common interest of the Community, and Article 107 (2) specified that:

"If a Member State alters its exchange rate in a manner which is incompatible with the objectives laid down in Article 104 and which seriously distorts the conditions of competition, the Commission may, after consulting the Monetary Committee, authorise other Member States to take for a strictly limited period the necessary measures, of which it shall determine the conditions and particulars, in order to deal with the consequences of such alteration."

These sections of the Treaty seemed to echo another document that had been ratified as a Treaty, the Articles of agreement creating the International Monetary Fund. This is yet another of the cases in which the regional and the global stages of integration marched in parallel. Article IV, Section 4, required members to collaborate with the Fund in promoting exchange rate stability, and Section 5 laid down the conditions under which members might adjust exchange rates (the Fund's agreement was required for a change that moved more than 10 percent from the original parity).

One other legal consequence of the Treaty of Rome was to play an important role in subsequent discussion about monetary institutions and their reform. The Council and the Commission had a quite extensive power to make institutional innovations as long as they were covered by the original terms of the Treaty under Article 235 in that they a "necessary" part of the operation of a common market.

If any action by the Community appears necessary to achieve, in the functioning of the Common Market, one of the aims of the Community in cases where this Treaty has not provided for the requisite powers of action, the Council, acting by means of a unanimous vote on a proposal of the

Commission and after the Assembly has been consulted, shall enact the appropriate provisions.

In the late 1980s, some politicians and also academics would try to make the logical case that a really integrated market would require a monetary union. But the argument that a single currency is "necessary" for a market was in reality always something of stretch. Any action that went beyond being "necessary" for the functioning of the Common Market would require a treaty alteration. Such a maneuver was obviously complex and directly political, requiring votes in the national legislative assemblies. Thus – to be concrete – the European Monetary System established in 1978 required no treaty alteration in order to operate; but it was generally agreed that the establishment of a European Central Bank did require a treaty revision (in the Maastricht Treaty). Article 236 in consequence specified:

The Government of any Member State or the Commission may submit to the Council proposals for the revision of this Treaty. If the Council, after consulting the Assembly and, where appropriate, the Commission, expresses an opinion in favour of the calling of a conference of representatives of the Governments of Member States, such conference shall be convened by the President of the Council for the purpose of determining in common agreement the amendments to be made to this Treaty. Such amendments shall enter into force after being ratified by all Member States in accordance with their respective constitutional rules.

Article 236 is the reason the Maastricht Treaty was needed to establish a monetary union, and also why that union is democratically legitimate in the sense that it was authorized by parliamentary votes (and in one case also by referendum).

In the 1960s, such discussions about the legitimacy of a common currency would have seemed very remote. There was no obvious demand for such a currency. Since the values of European currencies were globally fixed under the terms of the 1944 Bretton Woods Agreement, and the beginning of the EEC coincided with a major and successful attempt to stabilize the French franc, exchange rate issues played an only minor role in the initial years of the EEC. Regulation of exchange rates took place on a global, not a European, level, and it was the IMF rather than the EEC that naturally provided the primary forum for negotiation. That set a problem for European politicians, who did not appreciate what some saw as transatlantic meddling. In the later stages of the Bretton Woods system, in the 1960s, currencies became more and more political, and Europeans began to resent American monetary actions. Policy-makers, especially in France, then loved to quote a prophetic remark by the French poet Paul Valéry, who in 1931 had written that "Europe visibly aspires to be governed by an American committee."[13] The IMF, which supervised exchange rate arrangements in the post-Bretton Woods world, looked to Europeans like a perfectly American committee.

Central banks did not play a large part in the IMF, which was conceived of as a vehicle of finance ministries to manage international monetary cooperation and displace the central bankers who had made so many mistakes in the 1930s. European central banks could act within the framework of the Bank for International Settlements (whose dissolution had been provided for in the Bretton Woods agreement). By a series of coincidences, notably U.S. suspicions of the IMF in the aftermath of attacks on its co-founder Harry Dexter White as a Soviet spy, the BIS rather than the IMF was chosen as the financial agent of the European Recovery Plan. In particular, the BIS administered the European Payments Union that began operating in 195? as a means of multilateralizing European settlements. There was thus already some European central bank cooperation, even though at this time the central banks were for the most part politically controlled and there existed no well-developed conceptual framework as to why or how central banks could be independent.

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[13] Paul Valéry, "Notes sur la grandeur et la décadence de l'Europe," in *Regards sur le monde actuel*, Paris: Stock, Delamani et Boutelleau, 1931, p. 51. For the later use of Valéry's thought, see Michel Jobert's February 14, 1974, press conference, Aurelie Gfeller, "Re-Envisioning Europe: France, America and the Arab World 1973-1974," Princeton PhD 2008, p. 173.

The EEC immediately had an institutional setting in which central banks were represented. The Monetary Committee started functioning in 1958, with representatives of both central banks and Finance Ministries, and the latter definitely had the upper hand. Some central bankers felt that they should establish their own institutionalized form of cooperation, as had been provided for in Article 105 of the Rome Treaty on the coordination of policy in monetary matters (which may not be the same as coordination of monetary policy). In a 1957 speech at the Alpbach Economic Forum in Austria, the Governor of the Nederlands Bank, Marinus Holtrop, had gone further and asked whether a common central bank policy was necessary in a unified Europe, and then went on to answer the question in the affirmative.[14]

On November 10, 1957, Holtrop circulated a note in which he suggested that the five central banks of the EEC countries (Luxembourg had none, as it was in a monetary union with Belgium) should send identical letters to the Finance Ministers proposing enhanced cooperation between central banks. The Belgian, French and German governors responded sceptically, arguing that such a move would look like a concerted effort and raise national suspicions. In a subsequent discussion in Basel in January 1958, on the fringes of the monthly BIS meeting, the five men raised many of the issues that would be central to the future debates of the Committee of Central Bank Governors. The German Governor, Karl Blessing, stated emphatically that the activities of the Monetary Committee should not be seen as central bank cooperation; the Italian, Donato Menichella, thought that the governors should not be bound by decisions of the EEC (and still less by the opinions [*avis*] of the Monetary Committee). But the outcome of the meeting produced no institutional innovation: the five simply agreed to meet again in February or March to determine whether they should hold regular

[14] Marinus W. Holtrop, "Is a common central bank policy necessary within a united Europe?" *De Economist*, 105, pp. 642-661; see also Willem F.V. Vanthoor, "Een Oog op Holtrop, grundleggen van de Nederlandse monetare analyse," 1991 Amsterdam University PhD.

meetings, and that they should assure the Council of Ministers that central bank cooperation was "well assured."[15] As long as capital markets were not connected with each other, and as far as exchange rate policies were not problematical, the case for greater monetary cooperation was pretty weak.

One country in particular was sceptical. In the late 1950s, German current account surpluses started to increase: setting off a pattern of discussion that was echoed in the 1960s, the late 1970s, the late 1980s, but also in the late 2000s after the establishment of a monetary union. From the perspective of the Bundesbank, central bank cooperation might involve the demand for some German support operations. Blessing consequently spoke out to German Chancellor Konrad Adenauer against any plan for a fund of EEC countries.[16]

The 1957 statement of the five EEC central banks that everything was well seems to have been accepted until an event occurred which showed that there was really not too much central bank cooperation between Europeans. In March 1961, the German Mark and the Netherlands guilder were revalued, after a long period of tensions in the markets, and after a great deal of discussion within the IMF about the appropriate response to the build-up of German surpluses, but after no particular consultation with Germany's fellow EEC members. All the negotiation was done in Washington. The DMark revaluation came at a sensitive time for European politics because relative prices were at the forefront of policy-makers' minds as they focused on negotiating agreements on agricultural prices. A change in parity upset very carefully negotiated results, and laid the whole fragile mechanism of the Common Agricultural Policy open again. The upset produced the first EEC-level response to the issue of monetary policy in member countries. The Van Campen report to the European parliament (April 7, 1962) consequently argued that monetary

[15] BdF 1489200205/46, November 10, 1957, Holtrop: Aide-Mémoire sur la Collaboration entre Banques Centrales des Pays du Marché Commun; January 13, 1958, Memorandum: Collaboration entre Banques Centrales des Pays du Marché Commun.
[16] HADB, November 4, 1958 ZBR and November 11, 1958 ZBR.

policy needed to be coordinated with other aspects of economic policy. It made the point that policy coordination alone would not be enough, and envisaged a federal system of monetary management analogous to the structure of the Bundesbank or the Federal Reserve System.

There was an acute European question of imbalances between the member countries of the EEC, as well as within the broader international system. Trading imbalances obviously raised the existential question of whether the European customs union was operating sustainably and adequately. Holtrop was very worried about American pressure on European surplus countries – in particular the Netherlands as well as Germany – to expand in order to correct the surpluses. He objected to American economists lecturing the Europeans on the need for expansion or what he called advice "to follow a policy of hardly disguised inflation. I must object [...] to being told that surplus countries at the top of the boom should follow an expansionist policy." Instead, the United States should reject its "cheap money" bias. [17]

The EEC Commission published its Action Programme for the Second Phase of EEC on October 24, 1962, of which Part 8, inspired mostly by Robert Marjolin, focused on monetary relations and called for the establishment of a council or committee of the EEC's Central Bank Governors. The Commission's call was preceded by a sharp reminder that monetary policy was by no means a central concern of the EEC and the people who directed its fortunes at this stage: "Even though monetary policy no longer plays the almost exclusive directive role that it assumed in various epochs of the past, it still plays an essential role in the general equilibrium, even if it is only as the brake which slows down an economy threatened by inflation." [18] The brake would form the "stop"

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[17] HADB, N2/272, January 24, 1961, Holtrop to E.M. Bernstein (commenting on an article that Bernstein had published in the *Wall Street Journal*).

[18] EEC, Mémorandum de la Commission sur le programme d'action de la Communauté pendant la deuxième étape, Brussels, October 24, 1962, p. 76. "Bien que la politique monétaire n'ait plus aujourd'hui le rôle directeur quasi exclusif qu'elle a possédé à différentes époques dans

part of a stop-go cycle driven by domestic demand, but some central bankers were also worrying about inflation transmitted externally through the exchange rate system.

The monetary policy section of the Action Programme also spoke of the desirability of a general liberalization of capital accounts, in accordance with the provisions of the Treaty of Rome. It concluded in a visionary way that made explicit the logical link between monetary union and fiscal union. That linkage, which also figured in the lead-up to the Maastricht Treaty, was actually stated with greater clarity and force than it would be in the 1990s discussions. There would be parallel councils or committees to coordinate or determine ("fix") fiscal policy as well as monetary policy, because both were seen as part of the management of demand: "The creation of a monetary union could become the objective of the third phase of the Common Market. The Finance or Economics Ministers of the Community, assembled in Council, would decide on conditions that should be fixed at an opportune time: the overall size of national budgets, and of the Community budget, and the general conditions of financing of these budgets. The Council of Central Bank Governors would become the central organ of the banking system of a federal type."[19] It would begin to resemble what was later sometimes called a Eurofed. This passage might be thought of as prophetic, in that the lines of the latter part of this suggestion were followed fairly precisely in the 1990s: but there was a major difference in that by the end of the twentieth century, central banks placed a very susbstantial premium on devising legal guarantees of their institutional and operational independence.

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le passé, elle joue encore un rôle essentiel dans l'équilibre. général, ne serait-ce que comme le frein qui ralentit le mouvement d'une économie menace par l"inflation."

[19] p. 80: "La création de l'union monétaire pourrait devenir l'objectif de la troisième étape du marché commun. Les ministres des finances ou des affaires économiques de la Communauté réunis en Conseil, décideraient des conditions qui devront être arrêtées en temps opportun, volume global des budgets nationaux et du budget communautaire, ainsi que des conditions générales de financement de ces budgets. Le conseil des gouverneurs des instituts d'émission deviendrait l'organe central d'un système bancaire de type fédéral.

For the moment, however, economic theory was deeply unsympathetic to any idea of independent central banks. Monetary policy was a low priority residual. The 1960s consensus view of central banks as a fundamental nuisance, posing a threat to growth through their interest rate policy, and requiring subordination in a general framework of economic policy direction, did not however meet with a great deal of enthusiasm on the central banking community – even at that time. Central bankers in consequence devoted some imagination on how to neutralize this political initiative of Marjolin that would greatly extend the power of the Commission.

What was it that 1960s central banks actually did? They were rather like the House of Lord in Gilbert and Sullivan's *Iolanthe*, doing nothing in particular and doing it very well. They did not really even bother to act, and the economies of the European countries grew spectacularly, and the rate of inflation was for the most part tolerably and acceptably low. There was nothing to worry about and nothing to do. They rarely did monetary policy in the sense of an earlier or a later age. The basic tools of monetary policy for most European central banks at this time were thought to be discount policy, and the alteration of the reserve ratios that banks were required to hold with the central bank. There was not a sufficiently deep market in government securities outside Britain or the U.S. for open market operations to play a significant role. But in practice, central banks did not like to change the headline policy tools at all. Any change of interest rates or alteration of bank reserve ratios would alter income and wealth distributions and create political waves. Italy's first postwar central bank governor, the eminent economist and liberal thinker Luigi Einaudi, put it this way in 1960, at the height of Italy's postwar economic miracle: central banks did not like "noise" (*rumore*). "Noise" would produce public comment and political pressure: "Newspapers blow up the news, stir up public opinion: financial commentators come close to prophesying chaos, crisis. Predictions are made of falls on the stock exchange, of its being impossible to obtain advances or discount bills." Einaudi went on to give a beautiful description of an informal, whispered system of management and control. Instead of being loud and political, the central bank governor would "receive the managers of the banks, friends of his or persons devoted to him, the heads of firms large and small in his study. [...] In the Governor's study orders are not given, there is discussion, the situation is examined, the intricate knots are disentangled, and advice is given. Instead of raising the discount rate, why not politely reduce some overdraft limits, why not increase the interest rates on facilities whose restriction is desired?"[20]

The informal pattern of control, characteristic of all European countries, would be threatened by any central European direction of monetary policy. On November 12, 1962, the EEC central bank governors met in Basel to prepare a response to the Marjolin initiative. They eventually concocted a statement that marks the real beginning of the Governors' Committee, but the document was inevitably controversial and seemed to rock the boat of quietly whispered policy. In a note agreed by all the EEC central bank governors on December 12, 1962, they stated their wish for periodic meetings in Basel, which would "prepare" for meetings of the Ministers and Governors in the framework of the EEC Council. They would also consider public finance issues. The memorandum, however, also pointed out that many policy aspects could not be tackled at this level but required either a Treaty modification or some inter-state negotiation that could not be undertaken by central banks. Such issues included reform of the international monetary system, mutual financial support, and the creation of a monetary union between the Six.[21] Decades later, this point about the logic of inter-state cooperation may seem obvious but at that time

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[20] "Rumore," *Corriere della sera*, 85/235, October 1, 1960, p. 1, reproduced in translation in (eds.) Luca Einaudi, Riccardo Faucci, Robero Marchionatti, *Luigi Einaudi: Selected economic essays*, Basingstoke: Palgrave Macmillan, 2006, 182-186.

[21] BdF 1489200205/46, December 10, 1962, Note.

it posed a clear challenge to strongly held concepts of national sovereignty. The idea that central banks might undertake some sort of political initiative clashed with a vision in which central bankers were more a silent part of the operation of a government, which inevitably had fundamentally domestic political objectives and priorities.

Such feeling ran particularly strongly in France. The day after the first Basel meeting in November, an interministerial committee in France laid down some fundamental French principles: that "France has long insisted that free exchange be accompanied by a harmonization of conditions of competition." The French officials were also worried about the likely consequences of the enlargement of the EEC to include the UK, and noted that "experience shows that national imperatives are very strong in this respect."[22] Corresponding with other central bankers, the Governor of the Banque de France, Jacques Brunet, consequently insisted that "the role of governments in monetary policy be emphasized."[23]

Governor Brunet was then so worried by the potential ramifications of the Governors' Note that he insisted that it not be communicated to anyone apart from the Governors and the Ministers. In particular, the Note was not to be presented to Marjolin, although the latter explicitly asked for it in the course of a long lunch meeting with the Governors. A Banque de France minute recorded that Marjolin's exposition had indicated that he emphatically wanted to pursue other propositions which belonged to the sphere of competence of governments and not of central bankers. Marjolin had also proposed to hold two "symbolic" meetings in Brussels to emphasize the link with the EEC, a suggestion which was backed by the Belgian central bank governor, Hubert Ansiaux. The Banque de France was also basically hostile to the idea of the Note, which it considered "in a bad style, because the discussion was often delicate and some of the Governors either

[22] BdF 1489200205/46, November 13, 1962 compte-rendu of Matignon meeting (November 9): Comité interministériel pour les Questions de Coopération Européenne.
[23] BdF 1489200205/46, December 5, 1962, Guindey (BIS) to Brunet.

have an imperfect knowledge of French, or no French at all." [24] The critics did not just set out their views behind closed doors.

There was also a hostile public response from the Bundesbank, whose President Karl Blessing argued that monetary integration was not possible without prior economic integration and that monetary policies anyway needed to be dealt with at the transatlantic level rather than in a European context.[25] By contrast with the French government's restrictive view of central bank action, Blessing had a rather more expansive view. A veteran of the pre-war predecessor of the Bundesbank, the Reichsbank, he had been dismissed in 1939 by Hitler after the bank criticized government spending policy in the last phase of the 1930s Nazi rearmament drive.

Marjolin's frustrations with the Governors increased as a consequence of their non-communicative reaction to his initiative. In July 1963, he set out his new plans publicly. He thought the strengthening of economic integration should involve the creation of a Committee of Central Bank Governors, as well as the enlargement of the competences of the Monetary Committee, so as to include consultations before any important decision affecting international monetary relations, including drawings on the IMF. In particular, and most importantly, EEC members should be consulted before any parity alteration. An EEC Budgetary Policy Committee should be established to coordinate fiscal policies of member countries; and special meetings of the Council should be convened to examine the entirety of member country policies. The CCBG, Marjolin hoped, would form the "embryo of a Community Federal Reserve Board."[26]

The urgency of a European mechanism for discussing monetary policy also increased because of heightened tension

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[24] BdF 1489200205/46, December 7, 1962, Brunet to Holtrop; December 12, 1962, Note pour le Gouverneur.

[25] Deutsche Bundesbank, January 27, 1963, *Auszug aus Presseartikeln*, 9/63, pp. 1-3; see also Hubert Zimmermann, „The Fall of Bretton Woods and the emergence of the Werner Plan," in Lars Magnusson and Bo Strath, *From the Werner Plan to the EMU: in Search of a Political Economy for Europe*, Bruxelles, Peter Lang, 2001, p. 58.

[26] *Agence Europe*, 1590, July 1, 1963.

within the Community in the aftermath of Italy’s large public sector deficit in 1963 and of resulting balance of payments problems. In March 1963, a major speculative attack occurred, with the Italian treasury losing $ 82 m. in reserves on March 12 and 13. The Italian government imposed austerity measures, without consulting other European governments, and negotiated exclusively in Washington, with the U.S. Treasury and the IMF. Italy, a deficit country, was doing what Germany, a surplus country, had done in 1961; and the Italians found the atmosphere in Washington agreeable and congenial. They may have though that the importance of the Italian peninsular to U.S. strategic security thinking would give them a greater degree of leverage than they had in Brussels. The Governor of the Banca d’Italia, Guido Carli, concluded a swap arrangement of $100 m. with the U.S. Treasury and a $250 m. swap with the Federal Reserve. The IMF increased its lira holdings to the maximum of the gold tranche within the Fund ($225 m.), and the World Bank repurchased bonds.

European fingers quickly wagged at the excessively Atlanticist stance of Rome. Carli was asked by the Monetary Committee to explain the Italian position, which seemed to be at odds with the ideals of the EEC and the explicit provisions for mutual economic assistance in Article 108 of the Treaty of Rome. The president of the Committee, the Belgian deputy governor Emile van Lennep, started the discussion with an expression of regret about the “failed organization” of contacts between the Banca d’Italia and other European central banks. There had in fact been parallel agreements with the Bank of England (a swap of $100 m.) and with the Bundebsank ($150 m.). But Carli replied to van Lennep’s attack by observing that Brussels institutions were not suitable for “emergency action” because of their complex procedures. The U.S. arrangements by contrast had been quick and flexible. Other Europeans took the opportunity to give some lectures to Italy. André de Lattre from the French Treasury suggested that Italy should adopt an incomes policy, while the Vice-Governor of the Banque de France, Bernard Clappier, called for an examination of the Italian program, and finance ministry officials from other countries wanted assurances that monetary support would not be used to support the impoverished south via the Cassa del Mezzogiorno.[27] Thus while Washington opened its pocketbook, Brussels read out its sermons.

There was inevitably an anti-American edge to the European reform debate at this moment. At the same meeting of the EEC Monetary Committee, van Lennep also proposed a European scheme to deal with the liquidity issues of the international monetary system. Since the influential articles of Robert Triffin in the late 1950s, policy-makers had worried about a dilemma in which on one side, there might be insufficient liquidity and a deflationary drag in the world, and on the other the U.S. might over-supply liquidity to the extent that there was a risk that dollar claims would be far greater than the gold and other liquid assets the U.S. had to cover them. [28] Triffin's approach had always involved a call to European action. Van Lennep was acting in the spirit of Triffin when he proposed that the EEC Six should evolve their own system as an alternative to the further creation of dollars in the international system "in case the dollar can no longer fulfil its functions or if there is deflationary pressure." But the suggestion divided the Committee, and de Lattre spoke very emphatically in favour of European rather than U.S. reserve creation, which "must not depend on the needs of an individual country but must be agreed collectively." Otmar Emminger from the Bundesbank and Rinaldo Ossola from the Banca d'Italia were quite critical of the French suggestion, and Emminger reasoned that there was no need to replace the dollar with another reserve unit, and that if assistance was required, an expansion of the General Arrangements to Borrow (GAB) was the most appropriate

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[27] BAC 565/1995/206, Bericht über die 58. Tagung des Währungsausschusses, April 2, 1964.

[28] Robert Triffin, "The Return to Convertibility 1926-1931 and 1958-? Or Convertibility and the Morning After," *Quarterly Review, Banca Nazionale del Lavoro*, 48, March 1959, pp. 3-57; and *Gold and the Dollar Crisis: The Future of Convertibility*, New Haven Conn.: Yale University Press, 1960.

mechanism. The GAB had been established by ten major countries in 1961, with the objective of providing credit of up to $6 bn., additional to the resources of the IMF. The fundamental eventuality that the G-10 might have to cope with lay in the increasing strains facing the major reserve centers: the United States and the United Kingdom. Switzerland joined this group in October 1963, although it continued to be known as the Group of Ten. A proposal for a collective reserve unit had already been made by the former head of the IMF's Research Department, Edward Bernstein in 1963, and in October 1963 a G-10 Deputies' Study Group began work on "the functioning of the international monetary system and its probable future needs for liquidity". But it was only when the U.S. Treasury Secretary in July 1965 came round to an appreciation of the Triffin concerns and called for a major new international monetary conference that the intense negotiations began that eventually produced a very circumscribed possible new reserve asset, the SDR or Special Drawing Right.

The April 1964 discussion, at a sensitive moment in international monetary negotiations over the question of alternatives to the dollar as a reserve currency, showed how deep the divisions were within Europe, and how much some European countries – especially Italy and Germany – looked to Atlantic rather than European solutions. The divisions appeared greatest in the positions of the different central banks; and those divisions seemed most appropriately dealt with by an exclusive committee of central bankers, in which finance ministries played no role.

The Committee of Central Bank Governors was created by an EEC Council decision of May 8, 1964. Article 2 stated: "The Committee shall be composed of the Governors of the Central Banks of the Member States. If they are unable to attend, they may be represented by another member of the directing body of their institution. The Commission shall, as a general rule, be invited to send one of its members as a representative to the meetings of the Committee." Article 3 of the Decision specified that: "The tasks of the Committee shall be:

- to hold consultations concerning the general principles and the broad lines of policy of the Central Banks, in particular as regards credit and the money and foreign exchange markets;
- to exchange information at regular intervals about the most important measures that fall within the competence of the Central Banks, and to examine those measures. This examination shall take place before the measures concerned are adopted where circumstances, and in particular the time limit for their adoption, allow. In carrying out its task, the Committee shall keep under review the trend of the monetary situation both inside and outside the Community." [29]

This 1964 decision inevitably played a crucial role in subsequent debates between the governors about the status of their committee. It was not an EEC (later European Community, and finally European Union) institution, but it had been set up by an EEC Council decision. Some German central bankers, who were particularly senstitive to the issue of the instruction of central banks by political authorities, consequently saw 1964 as "original sin" (*Sündenfall*).[30]

The Vice-President of the EEC Commission, Robert Marjolin, who had largely been behind the initiative of creating the CCBG, also set out at the outset a bold project for its future work. Later Marjolin was profoundly disappointed. He left Brussels in 1967, convinced that the "dynamic period" in the life of the EEC had ended and that it would henceforth simply be concerned with management ("une period de gestion").[31]

The first meeting of the CCBG occurred on July 6, 1964. Five Governors from the central banks of Belgium (also representing Luxembourg), France, Germany, Italy and the

[29] 64/300/EEC, OJ P 77, 21.5.1964, p. 1206
[30] For instance, B330/018436, June 5 1987 Schlüter memorandum: Betr. Tagung des Gouveneursausschusses am 11. Juni 1984.
[31] Robert Marjolin, *Le travail d'une vie*, Paris: Robert Laffont, 1986, p. 305.

Netherlands sat around a table in Basel, with Alternates sitting behind them. The Governors appointed the Secretary-General of the BIS, Antonio d'Aroma, as Secretary-General of the Committee, although in practice he attended only a very few of the Committee meetings.[32] The Dutch central bankers Marinus Holtrop, who because of his 1958 proposals might have been thought of as the real originator of the Committee, was elected as Chairman. He continued in this position in the next three years (until he retired from the central bank) although the chair was nominally determined only for a one year term. The EEC Commissioner with responsibility for monetary affairs, Robert Marjolin, also attended the meeting; and at the first session, seemed to play a rather dominant role.

At the initial meeting of the CCBG, Marjolin explained that "the Commission has rather ambitious views on the future of the Committee, because it believes that the Europe of the Six can also be realized in the monetary field."[33] He mentioned three particular areas of work: action to stop fluctuation in agricultural prices arising from the value of the unit of account; anti-inflationary action, since too often this was left to central banks which tightened interest rates, restricted credit, and thus confined the possibilities of investment; and thirdly, the question of capital controls used in particular by Germany to block inflows.

As an initial reaction, the chairman of the Committee, Holtrop, argued that there was a fundamental difference between the Monetary Committee and the new Committee: "The former was formed by representatives of governments and experts from central banks, and is called onto advise the EEC, while the latter must above all give the possibility to the

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[32] See Guenter D. Baer, "The Committee of Governors as a Forum for European Central Bank Cooperation," in (ed.) Age Bakker, *Monetary Stability through International Cooperation; Essays in Honour of André Szász*, Dordrecht: Kluwer, 1994; David M. Andrews, "Building Capacity: the Institutional Foundations of EMU."

[33] La Commission, d i t - i l , a des vues plutôt ambitieuses sur l ' a c t i v i t é future du Comité, p u i s q u 'e l l e c r o i t que l'Europe des Six peut être r é a l i s é e également dans l e domaine monétaire.

Governors of exchanging views on specific topics, for instance on the nature of measures adopted by a central bank and the influence that such measures might have on other central banks." Otmar Emminger, the Vice-President of the Bundesbank, spoke of a natural division of labor between the Monetary Committee, which had the principal task of promoting coordination of the policy of member countries in international monetary affairs, while the CCBG had the major mission of "coordinating the main lines of future policies of central banks."[34] In practice, this meant that the CCBG was never concerned with the most political and sensitive issue affecting central banks and their inter-relationship: that of the sustainability of the exchange rate. That was a fundamentally political issue.

There existed in practice a close relationship between the CCBG and the Monetary Committee. The Governors' alternates in the CCBG, who by the 1970s would hold their own regular preparatory meetings, were also generally the representatives of the central banks in the Monetary Committee. The Monetary Committee prepared material for meetings of the Finance Ministers in the European Council, and did not maintain extensive verbal minutes (so that the historical reconstruction of what happened in the Monetary Committee depends on the informal reports sent back by central bank and finance ministry representatives). By contrast, the CCBG secretariat in Basel made quite extensive minutes which preserve the basic outlines of the argumentation presented by members of the Committee.

In the event, the high hopes of the Commission and of Marjolin of finding a way of dealing with inflation without

[34] Le Dr Emminger signale à son toux que les attributions du Comité monétaire sont fixées dans le Traité de Rome et dans les décisions du Conseil des Ministres de la Communauté; le Comité monétaire a pour tâche principale de promouvoir la coordination des politiques des Etats membres dans les affaires monétaires internationales, tandis que le Comité des Gouverneurs a surtout pour mission de coordonner les grandes lignes de la politique future des banques centrales; il y a donc une division naturelle du travail.

high interest rates or stop-go monetary policies were disappointed. There was another political interruption that limited the scope for effective policy discussion. The work of the Committee was also damaged by French non-participation from July 1965 to March 1966, as a part of France's "empty chair" strategy on the EEC level, although the chairman of the Committee, Holtrop, made sure that Brunet was kept informed of the discussions.[35]

But the CCBG did develop in a different direction, as a forum for the provision of short term financial facilities n the form of central bank swaps. It became a European appendage to the swap network that the Federal Reserve had created in 1962. The CCBG – because it met in Basle, at the same time as the BIS and G-10 meetings, could thus evolve mostly into a way of formulating a common European response to the international financial and monetary problems of the day: the threats of a crisis emanating from the over-strained position of the British pound, and later from the U.S. dollar; and the discussion of a new reserve unit that might supplement or replace the dollar and provide a stable supply of international liquidity. This was also the background to the CCBG's first financial support package, which – rather extraordinarily – did not involve mutual support, or lending to a member country of the EEC. The CCBG thus formed the European dimension of an international response to the problem of global economic order.

On September 13, 1965, the CCBG considered the discussions that had been unfolding with the Bank of England about a support operation through the General Arrangements to Borrow (GAB). For most of the 1960s, the weakest institutional link in the international monetary chain was the UK. Support for the UK lay in the interest of the whole international community and of the system as a whole, with the consequence that the UK was generally able to extract support.

[35] Meeting 7, July 12, 1965, Basel.

[36] The problems of sterling as a major reserve currency potentially foreshadowed those of the dollar.

From August 29 to September 5, 1965, a representative of the Bank of England had visited Basel to ask for assistance from the G-10.[37] The EEC central banks, who saw themselves increasingly as a coherent caucus within the G-10, agreed to contribute $350 m. as a three month credit, but the Banque de France withdrew from the scheme, reducing the amount to $260 m. Was support of the UK a proper task for the EEC central banks? The Belgian central bank governor, Hubert Ansiaux, began by explaining that it did not seem likely that the U.K. would be able to repay promptly; and in fact, much larger amounts were needed ($4-5,000 m.) and Ansiaux suggested replicating something like the big stabilization loans of the 1920s, the Dawes and Young Plan bond issues, which had been used to prop up the fragile Weimar Republic, and which had (in the end) failed rather miserably. The group then discussed the British situation with U.S. Treasury Secretary Henry Fowler, who expressed his confidence in the pound sterling ("in a manner more or less nuanced", the minutes record).[38] France withdrew from the planned rescue, leaving the Bundesbank to support sterling with a three month credit line of $120 m. and the Federal Reserve with $400 m. The French purse was as empty as the French chair. The European support briefly buoyed the pound, in that it allowed the Bank of England to conduct what was described at the time as "the most massive bear squeeze in the history of foreign exchanges," but the long term effect was less dramatic and the British authorities began highly secret discussions about a possible devaluation.[39]

The question of sterling support credit was again discussed by the CCBG in May 1966. Again, Ansiaux was deeply critical: "the United Kingdom had apparently undertaken no

[36] See Catherine Schenk, *The decline of sterling: managing the retreat of an international currency 1945-1992*, Cambridge ; New York : Cambridge University Press, 2010.
[37] See also Forrest Capie, *The Bank of England: 1950s to 1979*, Cambridge; New York : Cambridge University Press, 2010.
[38] Meeting 8, September 13, 1965 (Brussels).
[39] Capie, *Bank of England*, p. 217.

effective or serious measures, and in this way the Europeans might be obliged to support sterling indefinitely."[40] In general, a sense that Europe was managing its currencies in a better way than the Anglo-Saxon reserve centers was an important undercurrent of the discussions on financial assistance. Governor Guido Carli of Italy argued that the IMF should intervene to criticize the U.S. balance of payments deficits, and believed that it might have a big impact on U.S. public opinion.[41]

The problems of the pound and the dollar required more than short term central banks support operations: a real solution would depend on the rethinking of the question of international reserves. That discussion occurred mostly on the international level, with France engaged in a rather unequal bilateral negotiation with the U.S. The program that French Finance Minister Valéry Giscard d'Estaing proposed in 1965 involved a collective reserve unit linked to gold, with the aim of restoring external discipline on the U.S. General de Gaulle saw the plan as a tool against "American inflation." Instead of unconditional reserve provision, there would be a possibility of drawing conditional credit. In 1967, France set about convincing the other members of the EEC of the merits of Giscard's plan, and proposed to link it at the same time with a reform of the voting system at the IMF so as to give the six EEC members a veto on Fund decisions. As a result of French pressure, the name of the proposed new reserve unit was not to include "reserve" but looked more like a credit instrument: the Special Drawing Right.[42]

The European position was hammered out in the CCBG. In the first discussion, in May 1967, Emminger of the Bundesbank rightly presented the demand for a European veto right on SDR issues as a political demand.[43] But France and Belgium pushed hard on this issue, and secured a common European position.

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[40] Meeting 12, May 9, 1966 (Basel).
[41] Meeting 13, July 11, 1966.
[42] See Harold James, *International Monetary Cooperation Since Bretton Woods*, pp. 170-171; Alain Prate, *Les batailles économiques du Général de Gaulle*, Paris: Plon, 1978.
[43] Meeting 18, May 8, 1967, Basel.

Brunet and Ansiaux made the case that agreement on the SDR should be dependent on greater European influence in the IMF, and in the discussion of global monetary reform.[44] In short, the CCBG at this time was acting mostly a regional caucus or pressure group pushing for global adjustments.

The CCBG also discussed capital controls, with the Banque Nationale de Belgique and the Banca d'Italia supporting the Commission's arguments about the desirability of lifting capital controls, while the Bundesbank, the Nederlandsche Bank, and to some extent the Banque de France, argued for their continuing desirability. At this point it was the weaker and poorer economies who hoped that external inflows of capital might provide a powerful locomotive for development that were most enthusiastic about liberalization; whereas the richer countries were worried about reversals and outflows. Emminger explained that Germany needed capital controls in order to prevent flows of capital undermining monetary policy-making and the maintenance of monetary stability.[45] Guido Carli replied, speaking with great pride about the first six months of 1966, when Italy had largely liberalized its capital account. The Franco-German core of the EEC was highly resistant to change on this issue; but the Franco-German relationship became vulnerable when the French exchange rate – the subject of an obsessive national pride – came under threat.

A dramatic move by the CCBG to an active lending policy occurred in July 1968. It was now the French turn to proffer the begging bowl. Given the harsh anti-American tone in the aftermath of de Gaulle's press conference of February 4, 1965, and the persistent French criticisms of the American "exorbitant privilege" of imposing the dollar as the world's leading currency, it is not surprising that French policy-makers did not want to crawl to Washington for additional credit. The Governor of the Banque de France, Jacques Brunet, explained that French reserve losses had required a drawing of

[44] Meeting 20, September 11, 1967.
[45] 13th meeting, July 11, 1966, Basel.

$745 m. from the IMF, as well as gold sales to the Federal Reserve, the SNB and EEC central banks. By the beginning of July, the French reserves were nevertheless exhausted, and the Banque de France embarked on swaps of $600 with the Federal Reserve and with the EEC central banks. At Basel, the central bank governors resolved that the French situation met the mutual assistance conditions stipulated by Article 108 of the EEC Treaty. They agreed on a three month $600 m. credit, with half coming from the Bundesbank, $200 m. from the Banca d'Italia and the remainder shared by the Banque Nationale de Belgique ad the Nederlandsche Bank.[46] The deal was linked with an agreement of the Banque de France to sell $300 m. gold to the participating central banks.[47] At the next meeting, the Bundesbank explained that it was prepared to extend further credit lines to the Banque de France, in order to deal with speculative pressure against the franc, and in expectation of a Mark revaluation.[48] These negotiations took place, in the European setting, in parallel with global (G-10) discussions of a parallel arrangement of up to $2,000 m. in support of Britain. The big move of the CCBG into financial support operations came not because the IMF was unable to provide a greater amount of resources, by because France was worried about the political implications of further drawing on the IMF.

Pressure on the franc also raised the much more difficult question, which could not be treated at the CCBG, of the sustainability of European exchange rates. At the EEC Monetary Committee, where the politicians clearly held the upper hand, there had been a consensus that a parity alteration of the French franc should be avoided. But then the European political confusion with respect to monetary arrangements was demonstrated very vividly at the Bonn G-10 summit of November 1968, when Europe's political consensus on exchange rates dramatically fell apart. The meeting took place largely at the insistence of the U.S. administration,

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[46] Meeting 25, July 8, 1968, Basel.
[47] See HADB, ZBR 269, July 18, 1969 meeting.
[48] Meeting 26, September 10, 1968, Rotterdam.

and was exceptionally badly prepared. It took place in the very bleak modern building in Bonn occupied by the German Economics Ministry, with large quantities of beer and sparkling wine on offer, but nothing to eat but rather meagre canapés. The corridors were filled with bored officials who had been expelled from the high-level political discussions. Outside the building, demonstrators held up placards with the slogan, "Save the Mark." In the course of the negotiations, the German hosts presented a package that had been the subject of intense bargaining within the German coalition government, in which the Economics Minister Karl Schiller (SPD) wanted an alteration of the Mark parity but was in a minority. The Finance Minister, Franz Josef Strauss, of the Bavarian CSU, passionately opposed a revaluation of the Mark as it would be harmful to German export interests.

When it was clear in the meeting that Germany would not act on the currency, the pressure shifted to France. After a telephone conversation with General de Gaulle, the French Finance Minister François-Xavier Ortoli agreed to an 11.1 percent devaluation of the French franc, but one day after the summit President de Gaulle announced that France would maintain the parity of the franc. It was very obvious that the G-10 mechanism was incapable of dealing with the European money muddle. In consequence, the desirability of evolving a European response mechanism became much more evident.

On February 12, 1969, the Commission – largely at the instigation of Raymond Barre - produced a new memorandum on monetary cooperation. The Governors were much happier to deal with this renewed effort than with the Marjolin proposals of the early 1960s. In part, this was simply a chance outcome of the impact of different personalities. Barre was a technocrat, whom Giscard later described as "the best economist of France." He was chubby and friendly with a low key manner that contrasted with the self-conscious intellectual superiority of Marjolin. But the proposals were not that different. Barre proposed to establish a close link between economic policy and monetary cooperation; and Barre also discussed the possibility of coordinating cyclical fiscal policies. Monetary support would be linked with the convergence of medium term economic objectives and coordination of short term policies. Essentially, he proposed systematizing the support mechanism established to deal with the French case in July 1968. [49]

It was not just a question of contrasting personalities, but of a different international environment for the reform discussion. It is striking that the European discussion after Barre's initiative did not really focus on monetary policy adjustments: this neglect was largely the consequence of the fixed exchange rate regime, in which monetary policy tagged along. But the fixed exchange rate regime was increasingly vulnerable.

European monetary coordination had its origins not in a failure of global financial mechanisms to offer via the IMF quick and responsive balance of payments support, but to a political worry about the Washington-based institution. That was the backdrop to the French support operation of July 1968. That credit demanded a logic of regularizing a mechanism for short-term financial support. It was only after this that a much more fundamental problem emerged. There was a clear area in which there was a structural failure of the IMF, its inability to address the increasingly severe exchange rate tensions that developed between 1968 and 1971. In that sense, there was a real need at the end of the 1960s for a new European approach to the general question of monetary relations.

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[49] Meeting 29, Basel, March 10, 1969, Basel. "Il se décompose en un soutien monétaire à court terme et en un concours financier à moyen terme." " il est apparu nécessaire de changer les procédures souvent dilatoires."