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Financial Implications of the
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Financial Implications of the Common Market

Ralph C. Wood

This paper summarizes and comments briefly on two papers scheduled to be published shortly: One by Professor Alan Day, on "The Financial Implications of the Common Market," and the other a commentary by Raymond Bertrand on Day's paper.

The Day and Bertrand papers will form part of a collection of essays entitled "The Problems of U.K. Entry into the Common Market."^{1/} While we do not know the titles or authors of other essays in the series, these two papers should be of special interest in financial circles, and indeed even more widely, because the general question of monetary arrangements in the Common Market has strategic aspects interrelated with the broader question of the nature and degree of political integration to be achieved by the Common Market. The following summary of and commentary on the Day-Bertrand papers assume that they are in substantially their final form in the advance typewritten copy in French which we have received.

An understanding of the flow of ideas in these two papers may be facilitated by a brief explanation at the outset as to what the central paper (that of Day) is about. What Day asks himself in this article is a question that many people close to the Common Market have undoubtedly been asking themselves repeatedly in recent years: can any significant step toward monetary integration be taken now? For as is well known, the Common Market faces a kind of dilemma on this score, which may be stated as follows. If the Common Market could establish monetary unification, a very powerful fillip would have been given to the integration process, the ultimate goal of which is political unification. Unfortunately, most people who have studied the problem have not been able to see how monetary unification could be effected until political unification has been achieved.^{2/} Assuming they are right, is there any way to achieve substantially the same results in the absence of complete monetary unification? For example, would it be feasible to have a single currency even if fiscal systems had to remain separated? If not, would it be possible to fix permanently the value of all Common Market currencies in relation to one another? These are the kinds of questions to which Day has addressed his paper.

^{1/} The collection is to be published in French by the Institut de Science Economique Appliquée, and in English by P.E.P. (Political and Economic Planning, a British organization generally comparable with the National Planning Association in this country). The editor of the series, as well as one of its contributors, is Raymond Bertrand, who has been for many years an official of the O.E.E.C. and more recently of its successor organization the O.E.C.D.

^{2/} See e.g. my June 1958 R.F.D. paper, "A Common Currency for the Common Market?"

Professor Day's paper

The first half of Day's paper is an exposition of some generally familiar ideas which may be briefly summarized as follows.

1. As Day says, "The right to levy taxes and to issue currency is among the essential attributes of sovereignty." Ultimately, therefore, the "financial" -- i.e. the monetary and fiscal -- arrangements that will prevail in the Common Market will be governed by the political relationships that are established.

2. The Community^{3/} may evolve into either a political federation (a system in which the essential attributes of sovereignty belong to a central government, like that of the United States) or a confederation (a system in which the central government is invested with certain elements of sovereignty, but with the others -- probably the more important ones -- remaining with the national states).

3. Given the vital importance of the power to tax and the power to issue currency, any political union will be of the confederative type if these powers are retained by the member states. "On the other hand, a political system is almost inevitably federal if a central body has the right to establish taxes and control note issue. These powers permit it to have its own defense policy and its own foreign policy, and it would be difficult (although logically not impossible) for the separate countries to maintain their own separate foreign and defense policies."

4. At its founding the E.E.C. was more a confederation than a federation, and it remains so today. So far as "financial" questions (again: monetary and fiscal matters) are concerned, the fundamental articles of the Treaty of Rome are those dealing with the balance of payments, notably Article 104 which states that each member country should "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 attain these objectives more easily, the member countries shall "coordinate their economic policies" (Article 105). All this indicates that fundamental decisions on matters of monetary and fiscal policy remain within the competence of the member countries.

5. It follows from the foregoing that member countries remain free to change the exchange rates for their currencies. This view is consistent with Article 107, which states that "each Member State shall treat its policy with regard to exchange rates as a matter of common interest." It is clear, Day says, that the Treaty envisages the possibility of modification of exchange rates as a permanent part of the international

^{3/} "The Community" refers to the European Economic Community (E.E.C.), or Common Market. The terms are all synonymous.

mechanism of adjustment for each member country. He suggests, in fact, that aside from efforts by member countries to coordinate their economic policies (in accordance with Article 105), modification of exchange rates is almost the sole method foreseen by the Treaty for solving a "persistent and fundamental disequilibrium in the global balance of payments of a member country."^{4/}

6. This confederative system is certainly possible of realization; but, says Day, whether it would be acceptable in the long run is another matter. The principal objection to it, he says, is that "many people will feel it is incompatible with the creation of a true Common Market." The reason for such a view is that in such a system the uncertainty of future exchange rates would create uncertainty about transactions among member countries that does not exist within a single country. For example, unlike the situation in the latter case, in the former a firm establishing its production plans would have to take into account the possibility of exchange-rate changes, and their effects on the conditions of competition with firms in other countries.

7. The problem would disappear if political forces were oriented toward acceptance of complete integration of the financial systems of member countries. Such integration would result in the creation of a common

^{4/} Articles 104-105, as quoted in (4) above, are also relevant; but if a fundamental disequilibrium exists, this presumably marks a failure (in some sense) of policy action under those articles. The only other measure in the Treaty which Day sees as in any sense a possible basic corrective he rightly rules out of consideration. "... all the clauses of Articles 108 and 109 are temporary in character, and could not be used to solve fundamental and persistent balance-of-payments difficulties -- with the possible exception that restrictions on imports of third-country products (under Article 108) might permit a lasting solution. One can therefore imagine as a limiting case that a permanent change in the entire commercial policy of the Community could solve the structural payments difficulties of a member country of the Common Market. But leaving this exception aside, it seems that exchange-rate change is the only means the Treaty envisages for solving the persistent payments problems of a member country."

The reason for saying that Day is right in ignoring the alternative "solution" suggested in the "limiting case" just mentioned is that a system of "solving" structural payments problems by introducing permanent trade discrimination would gradually undermine the present world trading system as one basically oriented toward free trade.

currency whose issue would be controlled by a central body. It would also be necessary to create a central body to establish fiscal policy, and thus [sic] to control the levels of economic activity and of demand in the entire Community. In such a system the powers of the member countries in financial matters would be analogous to those of the states in the United States of America. They could enjoy a substantial degree of autonomy in fiscal matters, but their financial (hence their political) autonomy would be very restricted. But a solution along these lines does not seem likely in the foreseeable future.

The foregoing is a summary of Day's statement of the background of his problem. We then come to his statement of the problem itself. "It is therefore necessary to see whether there are solutions which would make it possible to rule out exchange-rate changes among member countries, without the necessity of a complete centralization of financial powers." It is quite possible, he says, to imagine such compromise solutions, and his paper goes on to discuss two: that of the single central bank, and that of monetary union.

The "single central bank" solution. Under this solution there would be only one currency for the whole Community, and its issue would be controlled by a single central bank which would determine monetary policy for the whole Community. The member countries would, however, retain control of their fiscal policy, being subject only (according to Day) to the restriction of having to take account, at the time of borrowings or of repayments of public debt, of the interest-rate policy fixed by the Community central bank. Day asserts that "a system of this kind has functioned with success in certain sterling-area countries which had no central bank, and whose monetary policy was entirely determined by the Bank of England, although their fiscal policy was in the hands of the local authorities."

He points out, however, that in the European Common Market, such a system would have serious drawbacks. In particular, he argues that it would become more difficult to influence appropriately the levels of demand and of economic activity by means of close coordination of monetary and fiscal policy, on the basis of close cooperation between the finance minister and the Community central bank. (What he seems to mean is that such cooperation would be less close than when, as now, both the finance minister and the central bank have merely national responsibilities.) Under such a system, the national finance ministers would have only a very limited degree of real autonomy.

For example, Day suggests, a government that wanted to stimulate domestic economic activity by increasing its budget deficit would find itself forced to borrow at ever-increasing rates of interest, unless the

Community central bank agreed to increase the total currency issue.^{5/} Moreover, because of the rise in import payments, the reserves of the expanding country's deposit banks at the Community central bank would decline. The entire economic policy of each member country would therefore be largely subject to the control of the Community central bank.^{6/}

That, Day concludes, would be the net result of this system. It would, in fact, be very close to the solution of complete federalism (as outlined above -- with complete centralization of monetary policy, and with fiscal policy centralized in the same sense as that of the United States is), with an additional drawback: the fact that monetary policy would acquire a too-preponderant place among the means of control of economic activity, for there would be no institution or body capable of applying an effective fiscal policy. There would be no centralized authority empowered to tax and to spend, and the effective powers of the national governments in this field would be seriously limited. "It is extremely doubtful that it would be desirable or even possible to depend as much on monetary policy and as little on fiscal policy as would be implied in the 'single central bank' solution."

The "monetary union" solution. Day suggests that this second solution would probably make it possible to avoid both true federation and the disadvantages of changes in exchange rates. He thinks such a system could be established if all member countries agreed to "irrevocable" stabilization of the exchange rates of their currencies in relation to one another, and agreed also to hold "unlimited" amounts of each other's currencies. In practice, Day asserts, the agreement could be made very difficult to revoke, if the national currency of each member country were made legal tender in all member countries.

^{5/} The validity of this proposition obviously depends in part upon the magnitudes involved. Day is probably assuming that the country whose government wishes to do the borrowing is relatively large (e.g. France, Germany, or -- if it becomes a member of the Common Market -- the United Kingdom), and that the scale of borrowing is large even for that country.

^{6/} Implicit in this paragraph are a number of interesting questions about the mechanism of balance-of-payments adjustment under the unified central bank assumed by Day, as compared with the mechanism of adjustment within one country, e.g. the United States. Day implicitly assumes, probably correctly, that in the case he is discussing the automatic processes of adjustment (if any) would be very sluggish, and that a member country in or approaching balance-of-payments deficit within the Community would have to yield some of its independence in policy as the price for assistance from the Community central bank. The last sentence of the paragraph implies an assumption that every member country would sooner or later find itself in this position.

An analogous system existed in the nineteenth century in the Latin Union.^{7/} Alternatively, says Day, one could consider this system as a gold standard regime functioning among a limited group of countries (it being understood that the exchange rates of the Community in relation to those of third countries could vary from time to time, and that such changes would in fact be very likely to occur).

In such a system the national governments would have more autonomy than under the federal solution or under that of the single central bank (although they would have less than in a system in which the exchange rates of individual member countries could be changed). And the combined action of fiscal and monetary policies, effected by close cooperation between the finance minister and the central bank, would determine economic policy in each member country.

Day states that although each country would have more autonomy under the monetary-union solution than under the federal or the single-central-bank solutions, it would have to be subjected to severe constraints. If, for example, a member country started applying a strongly expansionary fiscal policy, it could, in theory, settle the resulting balance-of-payments deficit by printing currency which would have to be accepted by all member countries. In principle, therefore, a single member country could unleash a massive inflation throughout the Community. "It is therefore completely clear that there would have to be a collective power of constraint to prevent member countries from performing such arbitrary acts -- acts that were impossible under the gold standard and the Latin Monetary Union because the quantity of money in circulation was limited by the available quantity of precious metals." ^{8/}

^{7/} Hardly a happy parallel. "The Latin Union as an experiment in international monetary action has proved a failure. Its history serves merely to throw some light upon the difficulties which are likely to be encountered in any international attempt to regulate monetary systems in common. From whatever point of view the Latin Union is studied, it will be seen that it has resulted only in loss to the countries involved." H. Parker Willis, A History of the Latin Monetary Union (Chicago: University of Chicago Press, 1901), p. 267.

^{8/} So far as the Latin Monetary Union is concerned this statement is of doubtful accuracy. That Union foundered because of excessive silver coinage by some member countries, and in its later years (i.e. during World War I) because of the rise of the paper standard (the Union having been based on compulsory acceptance only of coins as legal tender).

A compromise solution? Day then suggests that a compromise between the single central bank solution and the monetary union solution would permit avoidance of some of the disadvantages of the two solutions. And without spelling out the details of the compromise he has in mind,^{9/} he states that its consequences would be numerous: permanent fixing of exchange rates among member countries; utilization of national central banks, and of national fiscal and monetary policies; however, definitive settlement of payments among member countries should be made at a Community central bank empowered to issue a currency which would be accepted by the central banks of the member countries. A country expanding more rapidly than other member countries would have to settle its balance-of-payments deficit at the Community central bank. If its reserves there were nearly exhausted, it would be obliged to brake its expansion or to persuade the Community central bank to grant it credits. "This solution is probably the compromise best able to reconcile the desire to conserve a large measure of national autonomy in economic policy, and the desire to establish a system of exchange rates fixed among members of the Community."

However, as soon as Day reaches this conclusion he at once points out that this "compromise" solution itself has some drawbacks. He notes, in particular, one that grows out of the unlikelihood that the Community central bank would be prepared to grant credits indefinitely to any member country. "A problem therefore remains unsolved: that of knowing what to do when a country experiences a fundamental disequilibrium in its balance of payments, due perhaps to a change in consumer tastes that reduces the demand for its products, or to a crisis of inflationary policy. We are brought back to the fundamental problem: if exchange-rate changes (even among member countries) are completely ruled out, the process of adjustment necessary to re-establish internal and external equilibrium in such a country is extremely long and arduous."

The correct answer, Day concludes, is that exchange-rate changes among member countries must be accepted -- at least as a last resort. "There is no perfect solution; but the best one possible would include a central bank for the Community able to grant credits to help meet temporary or medium-term difficulties, the grant to member countries of substantial freedom to determine their fiscal and monetary policies, and the possibility of making limited changes in exchange rates in order to eliminate disequilibria that cannot be corrected by other means."

Rejoinder by Bertrand

Bertrand begins by saying that Day's reflections on the "ultimate" effects of the Common Market in the monetary and financial field have the virtue of going to the heart of the problem -- "the type of monetary union necessary among the participating countries." Noting the three "solutions" outlined by Day, and stating that Day's preference is for the compromise solution, Bertrand says that while his is also, he deems it desirable to push the outline of solutions a little further.

^{9/} Something may be missing from our copy of the French text.

Before turning to the central issues, however, Bertrand devotes nearly the first half of his paper to a review of the present state of monetary and financial relations among the countries which may form part of the enlarged Common Market. This review is carried out under several headings. (1) Exchange rates (important role of I.M.F.: and, as Day says, lack of strict obligations in the Treaty of Rome, and its general vagueness on this subject, although its terms could be sharpened later by unanimous agreement). (2) External convertibility of currencies (based on the declarations at the end of 1958, on the European Monetary Agreement, and on the formal declarations under Article VIII of the I.M.F.). (3) Mutual financial assistance (lack of mechanism for it in the Treaty of Rome; comparison of mechanisms in E.M.A. and I.M.F.). (4) Exchange controls and freedom of capital movements (much variation among the European countries, and notably more restrictions in sterling-area than in common-market countries). (5) General coordination of economic policies (work of O.E.C.D., E.E.C., B.I.S., I.M.F.).

Turning to Day's analysis, Bertrand seems to agree on the need for fixity of exchange rates among the currencies of member countries in relation to one another (which he, like Day, says need not exclude changes in the value of all member-country currencies in relation to the value of third currencies). He also thinks, however -- and believes it desirable to point out specifically and stress -- that complete freedom for private payments among the member countries would be necessary. He thinks the same view is implicit in Day's analysis.

Asserting that these two objectives can be realized only gradually, Bertrand takes it as his task to develop the conditions under which they can be realized. On this, his basic proposition is that from the moment when exchange-rate variations are ruled out as a means of correcting disequilibria, and assuming that one has also ruled out exchange control (which in his view means that external convertibility is maintained), it becomes necessary to reinforce substantially the two instruments that remain: coordination of economic policies, and mutual assistance. He thinks these two instruments lack efficacy in a small group of countries, perhaps even in the present Common Market group (six countries), but would work satisfactorily in a Community enlarged by the addition of England and several other countries.

Policy coordination. On policy coordination, Bertrand confines his comments to two points on which he says his views differ materially from Day's.

First, while agreeing that no constellation of fixed exchange rate is immutable if fundamental disequilibria develop, and that avoidance of such disequilibria requires the application of the appropriate policy "mix" by each country, Bertrand says that wage-push, which Day had not even mentioned, is "far and away" the most significant cause of fundamental disequilibrium today. While noting that U.K. behavior in this field has

been among the most disturbing, Bertrand adds that it has not been proved that the Six have the key to a wage policy compatible with stability. "In my opinion, solution of this problem is the indispensable condition to the maintenance of fixed exchange rates."

Since, as Bertrand notes, Day did not even mention wage-push, it is not clear (at least from the two texts under review) in what way Bertrand's view on it differs from that of Day.

Bertrand's second point seems to be his comment that "on the other hand I attach relatively less importance than Day to the traditional instruments of regulating internal equilibrium. Alternating inflationary or deflationary pressures in certain countries of the enlarged Community should not seriously disturb international equilibrium because quasi-unlimited external financing will be provided -- on condition, naturally, that these pressures do not exceed certain limits, that they remain reversible, and that they do not unleash cumulative movements of factor costs."

Bertrand goes on to discount in even stronger terms the "traditional instruments" of economic regulation. "I would even go so far as to argue that credit policy, properly speaking, is destined to lose more and more of its importance in the Community, in proportion as the interpenetration of money markets caused by the freeing of capital movements takes place. A point will soon be reached at which the national money markets will be beyond the control of the national authorities. In these conditions the only problem of monetary policy will be the question whether it would be appropriate, in the interest of the cyclical position of the Community as a whole, to take common action to expand or to contract liquidity. In my view, this type of decision could more rationally be taken by a common central bank, and I do not agree with Day's criticisms of the theory of the 'single central bank' founded on the fact that the latter would lead to exclusive use of monetary policy as policy instrument for the economic cycle. On the contrary: in my opinion, centralization of credit control will be indispensable to give efficacy and coherence to an instrument that at the national level is condemned to atrophy. This said, I do not minimize the enormous institutional difficulties in such a reform the need for which will not appear until the process of interpenetration of money markets is more advanced."

Mutual assistance. Going on to the question of mutual assistance, Bertrand notes that advice has much more weight when backed up by power to grant means of financing. He thinks this consideration by itself would almost suffice to convince anyone that the same institution should control means of acting on internal credit, and resources for mutual international financing.

"We have already said that the E.E.C. does not have its own system for international short-term financing, and that the E.M.A. is insufficient because its resources are minute and its mechanism much too

rigid. As by definition the I.M.F. is not at the service of a group of countries [i.e. as a group], one is driven to visualize the creation of a purely European system of international financing. Like Alan Day, I think the principle of such a system could be extremely simple, and consist essentially of the capacity for a European institution to create credits and establish deposits. The essential character of these deposits would be that of being required to be accepted in payment by the member central banks of the system, on the same basis as gold or convertible currencies. Use of these deposits would be reserved to the central banks; they would not be convertible into gold or convertible currencies, so that the issuing institution would not have to hold reserves nor to be concerned about its liquidity, in the technical sense of the term. Obviously, the rules for this creation of central-bank money should not be so loose as to encourage inflation and cast doubt on its value. On the other hand, rules of excessive strictness would rob the system of its usefulness as a means of increasing international liquidity."

Bertrand goes on to say that variations of this idea have already been expressed, notably by Robert Triffin^{10/} and by the Action Committee for a United States of Europe. He notes, however, that these two plans "both foresee a European Reserve Union, built up out of a share in the reserves of member countries. But this pooling of reserves seems to me superfluous, assuming that the circle of deposits created by the common European institution is a closed one, supported by the mutual confidence of members."

Bertrand adds that it would of course be necessary to make sure that the system did not operate in such a way as to drive some countries into positions where they would lose all their convertible reserves because of deficits with third countries, while accumulating inconvertible European deposits as a result of continuing payments surpluses in Europe. "But that is simply a technical point to be studied. Alan Day himself, in his 1954 book on The Future of Sterling, proposed an ingenious but complicated mechanism for dealing with such a problem. And the practical problem is much less serious today than in the period of the 'dollar gap.'"

Bertrand concludes this part of the analysis by saying that of the two functions that the European central bank could perform (credit control and international credits and settlements), the second appears to him more important and more urgent; in fact he suggests that the second is necessary to efficient operation of the first, as well as to the coordination of economic policies.

The balance of Bertrand's paper is a brief review of some of the problems of British membership in the Common Market arising from differences in regulation of capital movements. Although of interest

^{10/} Cf. "Intégration économique européennes et politique monétaire," in La restauration des monnaies européennes, special issue of La Revue d' Economie Politique, Paris 1960.

in its own right, this topic need not be explored here, as it is not directly important to the broader subject explored by Day and Bertrand as summarized above.^{11/}

Comments

1. There are some indications that Bertrand may not have understood the limited (but difficult) character of the chief question Day was asking himself. For example, Bertrand's opening sentence says that "Alan Day invites us to speculate on the ultimate consequences that the Common Market could have in the monetary and financial field." But as has been shown above, Day addressed his paper primarily to the question of what if anything it might be possible to do now, rather than to the question of the ultimate consequences of the Common Market in the financial field.

2. Even more important, Bertrand may have misunderstood Day's answer to the question he asked himself. According to Bertrand, "Alan Day's preferences run toward the compromise solution." But what Day in fact seems to be saying is something like this. "Of the various solutions considered, the compromise solution comes the nearest to establishing a system of permanently fixed rates among members, while preserving a large measure of national freedom. But do not deceive yourself: there is no middle ground which will permanently assure both. Even under this solution, countries must have the right to vary exchange rates as a last resort." Day's views on the compromise solution are not so much a statement of a preference as his formal answer to a problem; and it is a candid answer revealing that even the compromise solution does not escape both horns of the principal dilemma.

3. At different stages in their respective analyses -- Day in discussing his monetary union solution and Bertrand in discussing his idea of a "purely European system of international financing" -- both writers deal partially with a crucial point, an understanding of which is of central importance. Both see that it is highly improbable that a country of any importance in the world will voluntarily surrender its sovereign right to vary the value of its currency unless it is assured of means of financing of external deficits. But both also see that assurance of unlimited external financing is not a realistic possibility, although Day sees it (or at least says it) more clearly. In the monetary union solution, he points out, each country would have to be "subjected to severe constraints." And under the compromise solution he points out "the unlikelihood that the Community central bank would be prepared to grant credits indefinitely to any member country." Bertrand, on the other hand,

^{11/} It is, however, a little curious that to the extent that the special monetary problems of U.K. adhesion are touched on in this interchange, it occurs in the commentary by the French editor rather than in the primary article by the British professor.

merely says that under his proposed central European institution, "the rules for creation of this central bank money should not be so loose as to encourage inflation ..."

However, neither writer explicitly points out the essential conclusion to which these propositions jointly lead, which may be stated as follows. It is improbable that a country will surrender its sovereign right to vary its exchange rate in exchange for assurance of only a limited amount of external financing, when it can keep that sovereign right and in all probability still get some external financing should the need arise.

4. Day's compromise solution includes the establishment of a Community central bank. As noted above, Day says that "definitive settlement of payments among member countries should be made at a Community central bank empowered to issue a currency which would be accepted by the central banks of the member countries." However, as Day concludes that even his compromise solution could not rule out with certainty any and all changes in exchange-rate relationships among the currencies of member countries, it is far from clear -- since his whole analysis was a search for a solution which would do just that -- why he thinks a Community central bank is needed. It almost seems as if instead of attempting to show why such a bank is needed he had merely tried to show, assuming that such a bank had been established, what it might do.

5. Bertrand's somewhat more detailed proposal of a "European institution to create credits and establish deposits" is even less impressive. And however simple it may be (as Bertrand thinks) "in principle," it is anything but simple or clear in its implications.

As Bertrand presents it, deposits in the Community central bank could be used only by member-country central banks, which would be required to accept them in payment on the same basis as gold and convertible currencies. However, they would not be convertible into gold or convertible currencies, "so that the issuing institution would not have to hold reserves nor to be concerned about its liquidity, in the technical sense of the term." Apparently, however, the member central banks would hold gold and convertible currencies, since Bertrand later comments that it would be necessary "to make sure that the system did not operate in such a way as to drive some countries into positions where they would lose all their convertible reserves because of deficits with third countries ..."

Such a proposal or conception raises more question than it answers, and seems essentially unrealistic and unworkable, except possibly under an elaborate system of exchange control which would appear to be inconsistent with Bertrand's underlying philosophy. It is interesting to consider what would happen if at some time in the future, France, for example, became short of gold and convertible currencies, while German

external reserves remained high. In the absence of exchange control, what would prevent a French commercial bank from buying dollars from a German commercial bank, settlement being ultimately made by a mere transfer of inconvertible deposits from the Bank of France account to the Bundesbank account on the books of the Community central bank? And if such a transaction were prevented by exchange control, what would prevent France from shifting a large part of her imports from dollar sources to Community sources? And if there were limits on Community central bank credit which prevented any significant diversion of that kind, what precise purpose, if any, would this central institution be serving?

Alan Day's 1954 scheme, to which Bertrand alludes, and which was designed to deal with the assumed problem of generalized dollar shortage (continuing or recurrent), is probably irrelevant to the kind of problem that would be most likely to arise under the Bertrand proposal. Instead of a situation of surpluses in Europe and deficits outside, the member country in difficulty would be more likely to have deficits with both areas. Under the Bertrand arrangements, the deficit with third countries would presumably be settled with gold and dollars (at least for as long as they lasted), while the deficit with member countries would -- "rest on the mutual confidence of members"? (His phrase explaining why, unlike the Triffin or Monnet proposals, the European institution he envisages would not require hard reserves.)

If there were any indications that a Community central bank of the kind envisaged by Bertrand were actively being considered within official circles of the E.E.C., it would be important to explore the idea at much greater length, and to weigh the question whether such a plan, conceived and presented as an important step forward, would not in fact be a serious step backward. Given the unrealistic character of the idea as presented, however, a more elaborate review of it at this time seems unnecessary.

The foregoing analysis does not argue that the Common Market will never have need for a central bank of some kind. It argues only that neither Bertrand's nor Day's case for such an institution to be established now or in the near future is at all persuasive.

6. There remains Bertrand's implicit argument that emergence of the kind of institution he has in mind is almost inevitable because of his view that national credit policy is destined to lose its importance in the Community, "in proportion as the interpenetration of money markets caused by the freeing of capital movements takes place"; and that "a point will soon be reached at which the national money markets will be beyond the control of the national authorities." It is certainly true that substantial freedom for capital and money to move internationally can give rise to movements the effects of which may run counter to domestic monetary policy in one or more of the countries involved. However,

a substantial amount of freedom of this kind already exists, and experience shows that the authorities are not helpless in the face of it, various offsetting techniques being open to them.

The general conclusion is that a common currency, or a unified central bank, or fiscal unification, all continue to seem unlikely of establishment in the Common Market in the foreseeable future. One should perhaps add the caveat that under contemporary conditions the vague phrase "the foreseeable future" seldom means more than a couple of years if indeed anyone can ever really see even that far ahead.