EUI WORKING PAPERS

RSCAS No. 2004/01

Macroeconomic and Monetary Thought at the European Commission in the 1960s

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ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

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EUI Working Paper **RSCAS** No. 2004/01

BADIA FIESOLANA, SAN DOMENICO DI FIESOLE (FI)

ISSN 1028-3625

Printed in Italy in June 2004
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I – 50016 San Domenico di Fiesole (FI)
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Abstract

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

Keywords

- Macroeconomic and Monetary Thought
- Policy Analysis
- European Commission
- Rome Treaty
- European Reserve Fund
- Action Programme for the Second Stage
- Barre Memorandum

Introduction*

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

However, in the mid 1950s, the six 'Schuman' countries that created the European Coal and Steel Community made two very different choices concerning economic integration: a regional one for the integration of the goods markets, with the creation of the common market, and a world-wide one for monetary integration, with complete external convertibility in the framework of the Bretton-Woods system (Abraham & Lemineur-Toumson, 1981). This choice would largely determine the perspective through which the Commission would look at monetary issues. For the Commission, monetary integration was linked with the integration of the goods markets, wherein agriculture would take a special place. This contrasted with the perspective of the central bankers of the Community, for whom currency issues were, in first instance, an issue of the international monetary system.

In this paper the focus is on macroeconomic and monetary thought at the European Commission in the 1960s.[1] At the Hague Summit of December 1969 an ambitious programme to deepen European integration, including an economic and monetary union, was launched. However, it was, at least initially, not very successful (Maes, 2002a). One of the purposes of the paper is to investigate whether a study of economic ideas at the European Commission in the 1960s can give some insights to understand the failure of Europe's attempt at monetary union in the 1970s.

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

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

The Rome Treaties: an economic thought perspective

The Rome Treaties reflected the priorities and sensitivities of the Member States. In the post-war period, there were significant differences in ideas and economic policy-making, especially between France and Germany (Maes, 2002b). In Germany, the economic order was based on the concept of the social market economy, while in France the state played a greater role in economic life and pursued

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1 The focus of the paper is on macroeconomic and monetary issues in a rather narrow sense, e.g. not discussing the issue of the liberalisation of capital movements (see Bakker, 1996).

more activist economic policies, with ‘the Plan’ taking a central place. These differences in economic ideas were to a large extent based on more fundamental underlying differences in ‘meta-beliefs’. The ‘tradition républicaine’ in France stressed the sovereign nation as the source of legitimacy and, consequently, the political direction of economic policy. The post-war German federal system stressed decentralisation and a division of power. The social market economy fitted in with this conception. Moreover, after the war, the experiences of France and Germany with the reconstruction were very different. In France, the recovery was strongly associated with ‘Le Plan’. In Germany, the recovery, ‘Das Wirtschaftswunder’ (the economic miracle), was associated with the free market economy. This further established and strengthened the different economic paradigms.

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

The French favoured a greater role for the state in economic life. In a policy memorandum, the French government proposed the idea of planning on a European scale:

> A policy of expansion ... implies investment which, in the basic industries, in the chemicals industry, in many of the processing industries, rests on a precise conception of the targets to be assigned to production over a period of several years. Convergence of the different national economic policies can therefore be ensured only by reconciling and harmonising national production objectives (as quoted in Marjolin, 1986: 287).

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

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

The EEC Treaty was rather sketchy on macroeconomic and monetary issues, also because of the choice for monetary integration in the Bretton-Woods framework. The Treaty left macroeconomic policy-making mainly at the level of the Member States. The responsibilities of the Commission were limited, they concerned mainly the orientation and co-ordination of the national macroeconomic policies.

In the chapter on ‘Policy relating to economic trends’, Article 103.1 states that ‘Member States shall consider their policy relating to economic trends as a matter of common interest. They shall consult with each other and with the Commission on measures to be taken in response to current circumstances.’

The most extensive discussion of macroeconomic and monetary issues is in the chapter ‘Balance of Payments’. Article 104 sets out that the Member States should pursue an economic policy ‘to ensure equilibrium of its overall balance of payments and to maintain the confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices’. Furthermore, it states that ‘Member States shall co-ordinate their economic policies’ (Article 105.1) and ‘Each Member

2 Free movement of capital was more limited, under French pressure.

State shall treat its policy with regard to exchange rates as a matter of common interest' (Article 107.1). The Treaty also foresaw in the establishment of the Monetary Committee, which would become very influential.

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

The relative lack of attention for monetary issues in the Rome Treaty can been explained from several perspectives (Pierre-Brossolette, 2002: 100). First, money and monetary policy were considered as important elements of national sovereignty. Therefore, the negotiators were reluctant to tackle these issues so short after the failure of the initiative for a 'European Defence Community'. Second, there was a reluctance in France against a too pronounced integration with Germany, given 'la trop grande proximité de certains souvenirs'. Third, in the mid 1950s, there were important divergencies in economic and monetary policies between the countries of the EEC. All in all, the Rome Treaty already seemed very ambitious.

The European Community in the 1960s

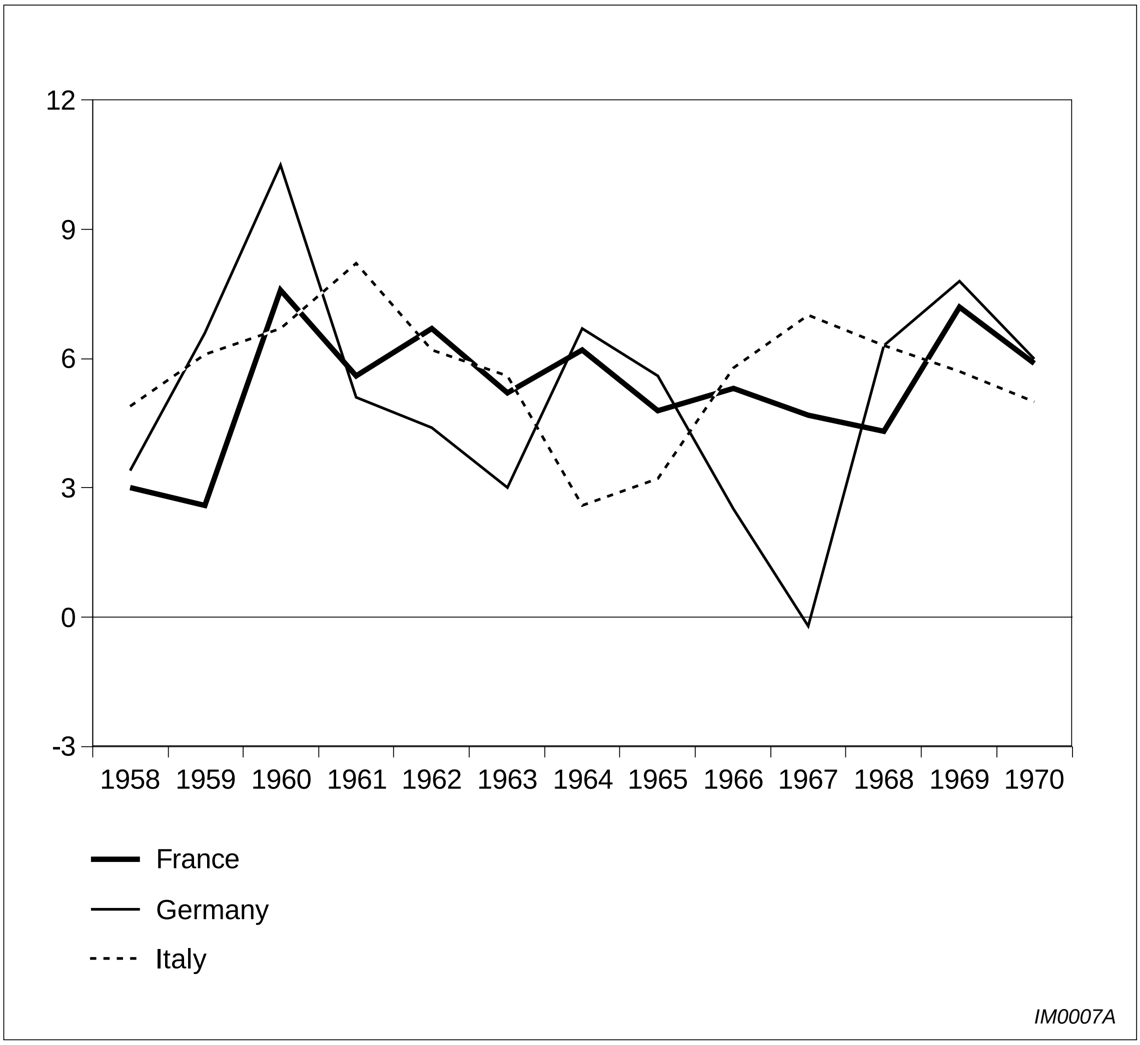
During most of the 1960s, the Bretton-Woods system provided the European Economic Community with a favourable international monetary environment. Stable exchange rates, both between the countries of the European Community and with other countries, facilitated the integration process. However, academic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

The 'Golden Sixties' were a period of strong economic growth (cf. Chart 1). In the European Economic Community, a virtuous dynamic developed: the abolition of barriers to trade, with the creation of the EEC, strengthened economic growth, which in turn made it easier to accelerate the common market programme.

For policy-makers at the Commission macroeconomic imbalances, especially inflation differentials between countries, were a major concern. Three episodes were critical:

- At the start of the Community, there were major macroeconomic imbalances in France. Inflation, in 1958, amounted to more than 10%. This was a serious problem for pro-Europeans in France: how could France participate in the common market project with this kind of macroeconomic imbalances?
- In 1962 and 1963 the inflation differential between France and Germany increased again. This time, a major factor was the revaluation of the German mark with 5% in March 1961.
- At the end of the 1960s, inflationary tendencies developed. This was especially so in France after the student and social upheavals of May 1968, leading to strong attacks on the French franc. The Banque de France had to intervene on the foreign exchange markets and increase interest rates. In August 1969 the French franc was devalued with 11.1 pct.

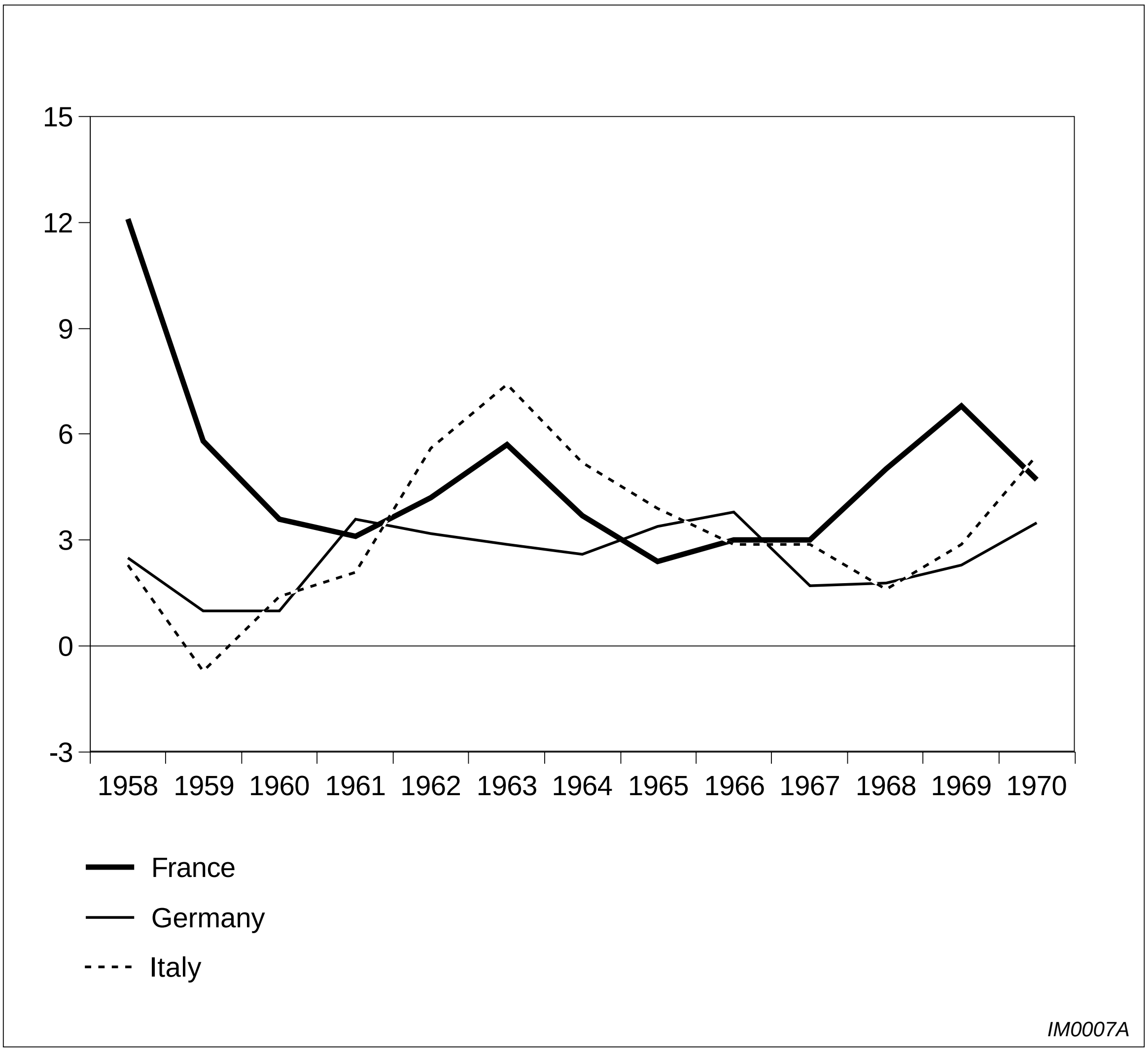
Chart 1 - Gross Domestic Product at Constant Prices[1]



Source: European Commission.

[1] Annual percentage change.

Chart 2 - Price Deflator of Private Consumption[1]



Source: European Commission.

[1] Annual percentage change.

Senior Macroeconomic Policy-Makers at the Commission

It is the College of the Commission which is ultimately responsible for policy-making at the European Commission.[3] However, as macroeconomic policy-making was mainly at the level of the Member States, the powers of the Commission were rather limited and concerned mainly the coordination of policies.

The first organigramme of the Services of the Commission is remarkably simple and reflects very well the structure of the EEC Treaty (cf. Table 1). The services of the Commission were initially composed of nine directorate-generals (departments), giving a good overview of the activities of the EEC. These were External Relations, Economic and Financial Affairs (the macroeconomic research department), Internal Market, Competition, Social Affairs, Agriculture, Transport, Overseas Countries and Territories, and Administration. There was also the powerful Secretariat (with, e.g., responsibility for the co-ordination of activities and the preparation of the meetings of the Commission).

In the attribution of the responsibilities of the members of the Commission and the director-generals (the highest civil servants) one can observe the preoccupations and sensitivities of France and Germany. Louis Armand, a Frenchman, was the first president of the Commission of the EAEC. Walter Hallstein, a German, was the first president of the Commission of the EEC, while the Secretary-General, Emile Noël, was French.[4]

There was also a Franco-German balance in economic policy attributions. The Germans had the important portfolio of competition policy, with Hans von der Groeben. The French had the lead in macroeconomic policy, as Robert Marjolin became responsible for Economic and Financial Affairs. These assignments reflected, in part, national concerns

The Germans further secured their presence in external relations with the director-generals for External Relations and Overseas Countries and Territories (Seeliger and Allardt).[5] Moreover, they were pleased with Belgium's Jean Rey at foreign relations. As von der Groeben (1998: 106) later remarked, 'we could more readily expect him, a liberal politician, to have an appreciation of a worldwide and liberal trade policy'.

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3 In the EEC terminology, the term 'Commission' is used both for the College of the Commission, the body of commissioners, and for the services of the Commission, the administration.

4 Formerly, Noël had been the chef de cabinet of Mollet, the French prime minister.

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

Table 1 - The First Commission of the European Economic Community

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

[1] Vice-President.

The French also obtained key positions in areas that were sensitive. Lemaignen became the member of the Commission responsible for Overseas Countries and Territories, while François-Xavier Ortoli and Jacques Rabot became director-general for, respectively, Internal Market and Agriculture.[6] The French were also quite happy with Sicco Mansholt as the member of the Commission responsible for agriculture: he had been a Dutch Minister for agriculture for many years, knew perfectly the mechanics of the farm sector and was convinced of the need for a common European agricultural policy (Marjolin, 1986: 313).

Moreover, the Commission functioned with Groups of Commissioners for the different areas. In the Hallstein Commission (1958), the Group of Economic and Financial Affairs was presided by Marjolin. The other members were Hans von der Groeben (vice-president), Piero Malvestiti and Sicco Mansholt. In the Rey Commission (1967), the Group of Economic and Financial Affairs consisted of Fritz Hellwig (vice-president), Sicco Mansholt, Lionello Levi Sandri, Albert Coppé, Guido Colonna di Paliano and Wilhelm Haferkamp.[7]

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

Marjolin is considered as one of the few prominent 'Keynesian' economists in France, developing in his doctoral dissertation a long-run dynamic theory (Arena and Schmidt, 1999: 93). He became later the deputy of Jean Monnet at the French Planning Office and the first Secretary-General of the OEEC.

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

7 It is the College of the Commission which is ultimately responsible, as a whole, for policy-making at the Commission.

Also during his time at the Commission he was very much interested in economic programming.[8] Raymond Barre was quite professorial, with a wide knowledge of economic theory.[9] He was free market-oriented, and very much a man of 'economic discipline', convinced of the importance of stable prices and exchange rates. He also had policy experience, as the chef de cabinet of Jean-Marcel Jeanneney, De Gaulle's Minister of Industry, where he had been supervising the abolition of tariffs and quotas, as required by the Rome Treaty. From a political perspective, was Marjolin close to Monnet and more in favour of supranationalist European institutions, while Barre, at that time, was close to the Gaullists. As one commentator observed, 'With M. Barre, the Commission for the first time adopted the 'realist' or 'pragmatic' standpoint in contrast with the 'utopian' views of those calling for a quick progress towards monetary union' (Tsoukalis, 1977: 72).

Table 2 - Senior Macroeconomic Policy-Makers at the European Commission

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

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

At the level of the administration, the Director-generals of DGII have typically been Italians.[10] The first one, Franco Bobba, was a former diplomat, a senior official at the economic directorate of the Italian Ministry of Foreign Affairs and one of the negotiators of the Rome Treaty. He was succeeded by Ugo Mosca, also a former diplomat.

8 According to an interviewee, did Monnet and Marjolin not really capture the idea of the market, but was economics for them a question of steering from above.

9 For instance, Barre wrote a review of Walter Eucken's Foundations of Economics (Barre, 1952).

10 Von der Groeben argued in favour of a German Director-general. However, Hallstein preferred German Director-generals in the external DGs (see van der Groeben, 1995: 302).

Initially, DGII consisted of three directorates, reflecting the main preoccupations of macroeconomic policy-makers at the Commission. The French were well represented at the Director's level. A first directorate, 'National economies and business cycle', was responsible for the follow-up of the economic situation and the evolution of the business cycle in Community. The first director was Pierre Millet (F). At the end of the 1960s, Bernhard Molitor (D), later a senior official in the German Economics Ministry, became the Director. The second directorate was 'Monetary matters', with first Leonhard Gleske (D) as director, later a member of the Direktorium of the Bundesbank. In the mid 1960s, Frédéric Boyer de la Giroday (F) became the monetary director. The third directorate was 'Structure and development'. It had in many ways, e.g. medium term forecasts, sectoral analyses, and structural programmes, a close resemblance to the (French) Planning Office. Its first director was Louis Duquesne de la Vinelle (B). Michel Albert (F), later Secretary-general of the French Planning Office, became the Director at the end of the 1960s. In 1967 a directorate for 'Budgetary matters' was created by Barre, with Gerard Wissels (N) as director. Another influential person was the Secretary of the Monetary Committee, a position which was at the same level as a directorship. The first Secretary was Alain Prate (F), who later became an economic adviser to De Gaulle and a Vice-Governor of the Banque de France. He was succeeded by Roland de Kergorlay (F).

It is noteworthy that, in 1958, at the start of the Communities, most of the crucial positions for the application of the safeguard clauses were occupied by French persons. The economic situation would be discussed in the Monetary Committee, of which Alain Prate was the Secretary. The basic paper would be provided by the Directorate National economies and business cycles (Millet) of DG II, for which Marjolin was responsible. Moreover, the Director-General for the Internal Market was Ortoli. Prate tells about the meeting in which Marjolin asked him to become the Secretary of the Monetary Committee:

> *La France se trouve dans l'incapacité de mener la poitique permettant d'ouvrir ses frontalières. Le recours aux clauses de sauvegarde est inévitable; il faut donc s'y préparer dès maintenant. Le traité prévoyant l'intervention du Comité monétaire, il faut constituer dès que possible ce comité et le mettre au travail'. Robert Marjolin, devançant l'événement, pouvait difficilement accepter que la France se dispensât purement et simplement de respecter ses engagements et il entendait faire jouer le dispositif institutionnel du traité pour inviter le gouvernement français à modifier sa politique économique (Prate, 1991: 78, original quotation marks).*

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

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

Marjolin and Triffin had both been very much involved in the European Payments Union. They shared a certain nostalgia for the framework of policy coordination and surveillance of the European Payments Union.[11]

The Project of a 'European Reserve Fund'

Monnet became interested in European monetary integration in the second half of the 1950s. It was a consequence of the French economic and financial crisis at that time, which threatened France's

11 The European Payments Union was established between the OEEC countries. The aim of the agreement was to promote free trade by a multilatered clearing of payments between the member countries. This was complemented by a framework of policy coordination and surveillance. It functioned from 1 July 1950 to 27 December 1958.

participation in the common market project (Perron, 2001). Typically, he put the French problem in a European framework and turned to his network for technical advice. That advice came from Pierre Uri, Paul Delouvrier, Robert Marjolin, and, *above all*, from Robert Triffin (Duchêne, 1994).

The project of a European Reserve Fund was one of Robert Triffin's most important topics of analysis during his time as an advisor at the European commission. In the autumn of 1957, Triffin reformulated his earlier ideas for a European Reserve Fund in an EEC framework (Maes and Buyst, 2002). It was discussed at DG II and Marjolin, in November 1958, presented a Memorandum to the Commission on the subject (see Annexes 4 to 8 in Ferrant & Sloover, 1990).[12]

Marjolin started from the observation that the Rome Treaty provided for the basic principles of the coordination of economic policies, but that the elaboration of this coordination was not very well worked out. To realise the ambitions of the Treaty, he argued that a common economic policy was appropriate. So could one avoid important divergencies of inflation and employment, which would lead to balance of payments difficulties and the application of the safeguard clauses.

To put in practice the coordination of policies, Marjolin proposed to undertake regular surveys of the economies of the Member States, in which the main economic and financial policy issues would be discussed. Moreover, he proposed that the Community institutions could also formulate policy recommendations.[13] The weight of these recommendations would be stronger if the Community would also dispose of financial resources to facilitate the organisation of financial solidarity. A European Reserve Fund could fulfil this role.

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

The proposals also gave a key role to the Commission in the macroeconomic and monetary area, as it would have a lead role in the coordination of policies. A member of the Commission would also be on the Executive Board ('Comité de Direction') of the European Reserve Fund.

However, the proposal did not take off.[14] In December 1958, De Gaulle devalued the French franc and followed orthodox economic policies, re-establishing economic stability in France. Moreover, also in December 1958, the countries of the Community restored the external convertibility of their currencies in the framework of the Bretton-Woods system.

The Commission's Action Programme of October 1962

In October 1962 the Commission submitted a Memorandum which contained its Action Programme for the second stage of the European Economic Community (1962-1965). Walter Hallstein, the president of the Commission, drafted the political introduction, while all members of the Commission, each for his own area of responsibility, took part in the preparation of the programme.[15]

In the 1962 Memorandum the Commission pushed for a maximal interpretation of the Rome Treaty as implying the progressive realization of full economic and monetary union and political union. Moreover, Marjolin advocated the idea of a medium-term policy for the Community.

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12 In a Memorandum of 31 May 1958, Marjolin was more cautious, proposing a system of 'stand-by' credits, not a European Reserve Fund (Archives Triffin).

13 Surveillance and policy recommendations had also been part of the EPU framework.

14 It is not clear to me what happened exactly with the proposal. Further archival work might shed some light on this.

15 See also Hallstein 1961 and 1972.

The introduction very strongly stated the political character of European economic integration, which should lead to a complete merger of the economies of the six Member States in a complete economic union:

> *L'intégration dite économique de l'Europe est, dans son essence, un phénomène politique. La Communauté économique européenne constitue avec la Communauté européenne du Charbon et de l'Acier et la Communauté européenne de l'énergie atomique une union politique dans les domaines économiques et social. Conformément à la volonté des Parties Contractantes de s'engager dans une intégration complète et compte tenu des conditions économiques que déterminent la création d'un espace économique unifié, le Traité a prévu la fusion des économies des six Etats membres en une union économique totale. Dans cette perspective d'ensemble, il importe de distinguer, d'une part l'union douanière et, d'autre part, l'union économique—au sens étroit du terme—qui se complètent et se commandent mutuellement.* (Commission, 1962a: 1).[16]

Economic union implied the progressive merger of national economic policies in a common short-term and long-term economic policy. This further implied the fixation, by the Community, of long-term economic objectives.[17]

The chapter on competition policy (the area of von der Groeben) clearly reflected German ordo-liberal ideas. It emphasised that competition was essential for the orientation of economic activity. Moreover, it went further, linking the economic and political regime: 'L'ordre économique doit en outre garantir la réalisation du plus haut degré de liberté personnelle à tous ceux qui participent à la vie économique et sociale' (Commission, 1962a: 24).

In the chapter on economic policy (the area of Marjolin), there was not only a plaidoyer for 'une politique conjoncturelle communautaire' (p. 72), but also for a medium-term policy, 'une programmation', at the level of the Community (p. 74).[18] Several arguments were advanced for such a 'programmation' at the Community level:

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

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

- desirable and possible evolution of economic activity;
- long-term projections for government revenues and expenditures;
- the expected or desired distribution of gross domestic product between the main sectors of activity;
- a forecast of labour supply and demand;

16 According to von der Goeben (1995: 339) was Marjolin reluctant about this formulation as he feared problems, especially with the French government.

17 The 'programmation communautaire' figured also very prominently in an article in the Bulletin of the EEC (Commission, 1962b) which provided an overview of the Action Programme.

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

- a forecast of how the volume of investment, corresponding to the needs of the Community, could be financed;
- the projected evolution of the external balance of the Community.

The Memorandum also argued that 'les grandes forces économiques' of the Community should be consulted in the development of these plans and projections.

Marjolin had been personally involved in the preparations to organise 'programmation' on the level of the Community. The Commission also organised a colloquium in Rome in November 1962 to discuss these ideas (see Marjolin, 1963 and Morel, 1978).

In the chapter on monetary policy, also an area of Marjolin, it was argued that monetary union could become the objective of the third stage of the common market (1966-1969).[19] The Memorandum argued that monetary policy had a 'vital importance' for the Common Market, as exchange rate upheavals could disrupt trade flows. The Memorandum paid in this respect special attention to agriculture:

> *Mais la politique monétaire a une importance vitale pour le Marché Commun d'un autre point de vue. L'union économique implique, en effet, au moins après la fin de la période de transition, la fixité des taux de change des monnaies des Etats membres, sous réserve de variations dans des limites très étroites. Toute modification importante provoquerait des bouleversements si profonds dans les échanges de pays que ne protégera plus aucune barrière douanière et entraînerait, à raison du prix d'intervention communautaire garanti pour les céréales et pour d'autres produits agricoles de base, des changements si soudains dans le niveau des prix des produits agricoles et par conséquent dans les revenus des agriculteurs que le Marché Commun lui-même pourrait être mis en cause* (Commission, 1962a : 87).

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

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

It is perhaps surprising that such an ambitious program did not contain the project of a European Reserve Fund of just a few years earlier. However, the 'logic' of the Memorandum and of the proposal for a European Reserve Fund are rather different. The Memorandum started from the common market and the common agricultural policy (with common prices) and explored the implications of those. It concluded that fixed exchange rates, and thus a monetary union, was an inevitable consequence of the common market and common agricultural prices.[20] This rather contrasts with the project of a European Reserve Fund, which is much more 'voluntarist'.

The Commission Memorandum did not receive a favourable welcome everywhere. In Germany, the Frankfurter Allgemeine had an article with as title 'Gefährlicher Brückenkopf für neuen Dirigismus' ('Dangerous bridgehead for a new dirigisme'). Erhard criticised the Memorandum in the European Parliament. The List Society organised a three day conference in June 1963 with the theme 'Planung ohne Planwirtschaft' ('Planning without a plan economy', Plitzko, 1964). Among the participants were Walter Hallstein and Hans von der Groeben, Alfred Müller-Armack, the State

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

20 In a note to Hallstein of 11 September 1962, Meyer, the deputy head of cabinet of Hallstein, argued that 'Die gemeinsame Agrarpolitik ist heute fest genug verwurzelt, als dass diese Einsicht in ihre währungspolitischen Konsequenzen zu Schwierigkeiten führen könnten' (Archives Gleske).

Secretary of the German Economics Ministry, and prominent foreign economists as Oskar Morgenstern and Jan Tinbergen. Also De Gaulle tended to oppose quantitative targets, as they would limit national policy-making autonomy (Howarth, 2001: 24).

The Governors of the central banks of Germany, Belgium, France, Italy and the Netherlands also discussed the Commission Memorandum. They came out in favour of new progress in monetary cooperation between the Member States of the Community and the creation of a Council of Central Bank Governors. However, they remarked that monetary coordination was also desirable in a wider framework than that of the Community and that it could only be efficient if there was also a coordination of budgetary policy. Moreover, several issues, like the reform of the international monetary system, mutual assistance and monetary union, according to the Governors, first had to be discussed at the level of each Member State ('Note' of 10 December 1962, Archives ECB).[21]

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

On 24 June 1963, the Commission also submitted a Communication on 'Monetary and Financial Cooperation in the European Economic Community' (CEC, 1963a). The Commission there proposed the creation of two new consultative organs, the Committee of Governors of the Central Banks of the Member States of the European Economic Community and the Budgetary Policy Committee, as well as to increase the responsibilities of the Monetary Committee, especially in the area of international monetary matters. Furthermore, there was a draft decision relating to prior consultations between Member States in the event of changes in the parity of their currencies.[22]

While the decisions of 1963 were a far cry from monetary union, as had been proposed in the 1962 Commission Memorandum, they contributed to establishing the Commission as an actor in the monetary area. Firstly, they made it clear that the Rome Treaty gave a right of initiative to the Commission in the monetary area. Secondly, the Commission would, as an observer, be invited to the meetings of the Committee of Governors. This would give the Commission an entrance in the world of the central bankers.[23] During the first meetings of the Committee of Governors, Marjolin took the opportunity to present the ideas of the Commission:

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

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

23 Something not unimportant. So became Delors, through his participation at the meetings of the Committee of Governors, convinced that the central bank Governors had to be in the 'Delors Committee'.

> *Mais la question principale, continue M. Marjolin, s'identifie avec le mouvement vers la création d'une union monétaire. On dit qu'une union monétaire n'est pas possible sans une union politique. Cela est vrai, mais si on avait parlé, il y a huit ou dix ans, d'unifier les prix des produits agricoles, tout le monde aurait dit qu'il s'agissait d'un projet irréalisable; il faut songer que même sans union politique la Communauté a réalisé, dans une large mesure, l'union économique.*
>
> *La Commission de la CEE est maintenant décidée à faire des propositions au Conseil des Ministres, propositions qui tendront à nous approcher de l'union monétaire, et M. Marjolin est autorisé à solliciter des avis, des conseil, etc., même si négatifs, soit au Comité des Gouverneurs, soit au Comité monétaire, sur les progrès réalisables, sur les obstacles à éliminer, sur les moyens les plus recommandables pour atteindre un tel but* (Minutes of the 2nd Meeting of the Committee of Governors, 12/10/64, Archives ECB).

In his Memoirs, Marjolin comments somewhat strangely on this episode (see also Andrews, 2002):

> It was in 1964, too, that the first attempt was made, if not to create an economic union, at least to co-ordinate national economic policies. I was personally responsible here, since economic, financial and monetary questions were my domain ... It was at that time that I started to have doubts about the possibility and perhaps even the utility, as a rule, of co-ordinating national economic policies. Either governments act spontaneously, guided by their own interest, or they are too weak to act, in both of which cases no amount of external pressure will be able to budge them. Nevertheless, in that same year of 1964 the Council, on my proposal, established a Committee of Governors of Central Banks and a Committee on Budgetary Policy, while the functions of the Monetary Committee were augmented. At the same time the Council decided to draw up and implement a medium-term economic policy. The latter remained largely a dead letter. As for the new committees, although they did useful work and brought together for the discussion of Community business national government officials who, for the most part, had not known one another previously, they did not, at least at the time, do much to further the harmonisation, not to mention the unification, of national economic policies. It has to be said that the need for this had not yet made itself felt acutely (Marjolin, 1986: 346-347).

The Barre Memorandum

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

The main aim of this 'Memorandum sur l'Action de la Communauté dans le Domaine Monétaire' (Archives Wissels) was to establish closer monetary relations between the countries of the Community. It was proposed that:

- Member States should declare that exchange rates would be adjusted only with mutual prior consent.
- The fluctuation margins should be eliminated.
- A system of mutual assistance should be established.
- A single European unit of account should be established.

Furthermore, concerted action in the international monetary institutions was envisaged.

The Memorandum was very short (two pages) and the proposals were not elaborated. They were very much in line with the voluntarist ideas which Triffin and Boyer were defending in DG II.[24] They were also quite in line with certain French ideas, in favour of a 'European monetary identity', but without new supranational institutions (de Lattre, 1999).

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24 In August 1967, Boyer was elaborating proposals, based on the 'Triffin Treasury of smart ideas', Letter of Boyer to Triffin, 2/8/67, Archives Triffin.

The Commission proposals were criticised by Germany and the Netherlands, who argued that such a 'one-sided monetary approach made no sense' (Szász, 1999: 11). The events of May 1968 and the ensuing crisis around the French franc, in which France invoked the safeguard clauses, further left their imprint.[25]

In October 1968, Raymond Barre was quite sceptical about EMU and defended quite 'economist' positions. He declared in the European Parliament that for EMU to succeed a European political authority was needed (Barre, 1968: 17). He further argued that monetary union would be the 'crowning act' of economic union. Barre went for a more pragmatic and two-sided approach, arguing that the main objective had to be better coordination of both the economic and monetary policies of the Member States.[26] The monetary proposals were less ambitious than in the February 1968 Memorandum. So was there no mention any more of the establishment of a single European unit of account.[27]

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

> a) convergence of medium-term economic policy orientations. The Barre Memorandum proposed to better specify the degree of convergence of the broad orientations of medium-term policy of the Member States and to assure their reciprocal compatibility. In the Commission analysis, there thus occurred a blending of the French medium-term approach with the German convergence analysis. The main objectives of these medium-term policies concerned economic growth, the evolution of prices and the situation of the balance of payments.
>
> b) the coordination of short-term economic policies. Here the emphasis was on sufficiently coherent short-term policies, at the level of the Community, so that the evolution of the different economies did not diverge from the medium-term objectives. The Memorandum proposed a reinforcement and a more effective application of the consultation procedures, before Member States decide on economic policies. The Memorandum also proposed a system of 'early warning' indicators.
>
> c) a Community mechanism for monetary cooperation. The proposed Community mechanism for monetary cooperation had to be composed of two parts: one for short-term monetary support and one for medium-term financial assistance.

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

The Barre Memorandum is also characterised by a special mixture of traditional German and French ideas. This is most clear in the first part of the Memorandum, on 'Convergence of medium-term economic policy orientations'. Here the French inspired medium-term analysis is applied to the German notion of economic convergence. By doing so, it signalled heightened concern at the

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

26 Barre (2000: 19) mentions that it was in Brussels that he got to know the differences between the approaches of the French administration ('sens aigu de l'interventionnisme, appuyé sur une certaine méconnaissance du marché' and 'formellement ou informellement protectionniste') and the German one.

27 A typical Triffin idea. It is noteworthy that Boyer, in 1967, quotes a close collaborator of Barre that Triffin was a good friend of Barre (Letter of Boyer to Triffin, 2/8/67, Archives Triffin). However, at least from mid 1968, the ideas of Triffin and Barre on European monetary integration seem to have been quite different.

Commission concerning the disparities in prices and costs in the countries of the Community (Note SEC(68) 3958 of 5/12/68, p. 11, Archives NBB).[28]

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

In their meeting of March 1969, the Governors stressed that the coordination of economic policies was the most important issue. After a thorough discussion, Ansiaux concluded that a mechanism for monetary cooperation 'a des justifications plus politiques qu'économiques et qu'à ce point de vue, on ne peut être totalement négatif' (Minutes of the 29th Meeting of the Committee of Governors, 10/3/69, Archives ECB). In February 1970, a Community Mechanism for Short-term Monetary Assistance was created.

Conclusion

In the early years of the Community, the Commission developed very ambitious ideas to push forward European integration. In November 1958, Marjolin presented a project for a European Reserve Fund at a meeting of the Commission. With the 1962 Action Programme, the Commission pushed for a maximal interpretation of the Rome Treaty, calling for economic and monetary union, a medium-term policy for the Community, and political union. It encountered heavy resistance, as both France and Germany were against such a broad transfer of sovereignty. Moreover, the idea of programming was taboo for Erhard, the German economics minister.

The 1969 Barre Memorandum was much more modest and pragmatic. It proposed a double line of action: both short-term and medium-term policy coordination to correct economic imbalances, and a Community mechanism for monetary cooperation to alleviate pressures on foreign exchange markets.

The modesty of the Barre Memorandum contrasts with the ambitions of the Hague Summit, where new political leaders (Brandt and Pompidou) set the tone for a 'great leap forward'. However, the plans for EMU did not get very far in the 1970s, as the fundamental underlying factors had not changed very much. Gaullist resistance against supranational European institutions quickly mounted. Moreover, the international environment was not very favourable with the breakdown of the Bretton-Woods system and the first oil shock. In this climate policy divergencies increased, leading to growing inflation differences and upheaval on the European exchange markets.

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

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

28 The analysis has certain similarities with the IMF analysis of 'real effective exchange rates indices' (cf. Polak, 1995: 742). For a more detailed analysis of these issues, accession to Commission documents is necessary.

of view, the Commission focussed on the linkages and interdependencies between the Member States and the compatibility of policies. Gradually, a typical Commission analysis developed, based on a blending of German convergence ideas with the French medium-term approach.

In the monetary area, the focus of the Commission was on the internal dynamics of the process of European integration, with the need for improved monetary cooperation to preserve the common market and the Common Agricultural Policy. This contrasted with the analysis of the central bankers, who took the larger international monetary system as the framework for their analysis.

One can also witness the ascension of the Commission as an actor in the monetary field. In the Rome Treaty, the role of the Commission in the monetary area was limited. During the 1960s the influence of the Commission has been increasing. In 1964, with the creation of the Committee of Governors, the Commission acquired a place in the central bankers' Club. In 1970, Barre succeeded in pushing through the creation of a Community Mechanism for Monetary Cooperation against the initial reluctance of the central bank governors.

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Annex 1 - List of Persons Interviewed*

Jean-Paul Abraham (B), European Coal and Steel Community (6-6-2000)

Michel Albert (F), Director DG II (9-11-2000)

Raymond Barre (F), Vice-President of the Commission, Economic and Financial Affairs (6-12-2001)

Georges Berthoin (F), Chef de cabinet of J. Monnet (30-10-2002)

Daniel Cardon (B), Chef de cabinet of A. Coppé (15-5-2001)

Roland de Kergorlay (F), Secretary of the Monetary Committee (27-11-2001)

Jean Flory (F), Chef de cabinet of R. Marjolin (5-12-2001)

Franz Froschmaier (D), Advisor to H. Von der Groeben and W. Haferkamp (16-7-1997)

Leonhard Gleske (D), Director DG II (18-12-2001)

Andreas Kees (D), DG II (28-11-2001)

Manfred Lahnstein (D), Advisor to W. Haferkamp (11-6-2002)

André Louw (B), DG II (22-8-1997, 24-7-2001)

Pierre Millet (F), Director DG II (20-2-2003)

Bernhard Molitor (D), Director DG II (8-3-2001)

Jean-Claude Morel (F), Head of Unit DG II (17-8-2000, 5-11-2000)

François-Xavier Ortoli (F), Director-General DG III (4-12-2001)

Jean-Claude Paye (F), Chef de cabinet of R. Barre (23-3-2001, 8-1-2003)

Giovanni Ravasio (I), DG II (10-4-2002)

Ludwig Schubert (D), DG II (25-8-2000, 25-4-2001)

Umberto Stefani (I), Assistant to the Director-General, DG II (31-10-2001)

Roland Tavitian (F), Director DG II (14-11-2003)

Robert Toulemon (F), Chef de cabinet of R. Marjolin (23-1-2002)

Paul van den Bempt (B), DG II (5-6-1997)

Hans von der Groeben (D), Member of the Commission, Competition Policy (23-7-2001)

Manfred Wegner (D), DG II (2-9-1997)

Gerard Wissels (N), Advisor to D. Spierenburg, Director DG II (10-1-2003, 18-3-2003)

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* Function relating to this paper and date of the interview.

Annex 2 - Main Events

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

Source: Vanthoor, 1999.