

The 'Europa'

The following is an article which appeared on the "Europa" this week in Corriere della Sera:

A parallel European currency denominated the "Europa" is the most interesting, if not new, proposal to emerge from a two-day conference organized by the European Movement on (the issue of) currency as "the element of division and unity" in the Old Continent.

The novelty consists in the fact that two of the top spokesmen of the Banca d'Italia have completely elaborated the proposal in political economy and technical terms, to the point where it seems proper to deduce that the idea of a parallel European currency is today the determining element in the long term strategy of our central bank.

The theoretician of the parallel European currency is Giovanni Magnifico, director of the International Economic Cooperation desk at the Banca d'Italia, professor at the University of Rome and Johns Hopkins University at Bologna, member of the EEC monetary committee, and financial advisor to our London and Bonn embassies. The man who instead developed the technical scenario within which the parallel European currency could be created and established is Rainer S. Masera, head of the International Monetary and Financial Problems desk at the Banca d'Italia.

The immediate usefulness of the parallel European currency is evidenced by the following proposal made by Magnifico: it would be desirable for Italy to follow the recent example of France, launching a large loan indexed to the European unity of account. If the unity of account were replaced by the "Europa," many of the problems of financial reequilibrium which today worry the nine EEC countries could be easily solved in the interests of all...

"The possibilities today for stabilizing monetary relations within the EEC Community by means of direct action on exchange rates are scarce," affirms Magnifico. In fact, the deficit countries, which are also the ones with the highest inflation rates, have no possibility of breaking the vicious inflation-devaluation cycle... Furthermore, the snake itself has no Common Market significance; it is nothing more than a deutschmark zone.

What should be done, therefore?

"We must begin," says Magnifico, "with the presupposition that monetary union cannot be conceived abstractly, as an end in itself, but rather as an aspect of economic union. Within this context, as occurs at the national level, the monetary question must be seen as having a responsibility toward the problems of development and employment."

The parallelism between economic and monetary components leads in turn to the creation of Common Market fiscal instruments. In other words, we must begin to realize, in Italy as well, that in order to obtain financial aid from the rest of the EEC it is also necessary to know when to waive (in favor of EEC resources) the

direct management of part of the fiscal profit, such as that of the VAT. This in turn presupposes greater democratic control over the functioning of EEC organs, which can only be done by a European parliament elected by direct universal suffrage...

"In general," concludes Magnifico, "the more the instruments of political economy in the hand of EEC organs increase in importance, the more the need to harmonize national economic policies decrease. Even in the area of monetary policy, this is the road to follow, pragmatically speaking, even though knowing only too well that — given the slowness of such an evolution — the task of containing the broadness of the cyclical fluctuations within the EEC will still remain for a long time to come entrusted in preponderant measure to difficult harmonizations of the policies of the member countries.

"The three principal functions of such a currency" — says Masera, illustrating his "technical proposals" — "are those of unit of account, means of exchange, and monetary reserve." The problem of a parallel currency is, by definition, that of coexisting for a greater or lesser period with currencies already in circulation without provoking portfolio disequilibria leading either to its disappearance or that of the other currencies.

The preferable definition of a parallel European currency is therefore that of the "unit of account basket," officially adopted by the EEC, because it is useless to propose a parallel currency which, as a currency in a narrowly defined sense (that is, useful in directly satisfying the function of a means of exchange), would be tendentially stronger than all or most of the existing currencies...

The circulation of the "Europa" would represent an instrument for ensuring the coherence of monetary and financial policies of individual countries, allowing for the existence of interest rates in the national markets compatible with conditions of integration into capital markets. In this situation, the nominal rates of the different currencies would have to diverge in response to the foreseen differentials in their relative inflation rates in such a way as to guarantee a real yield that is not dissimilar...

To that end, Masera's scheme foresees two outcomes: the establishment of the European Monetary Cooperation Fund and quarterly meetings of four-way EEC meetings (among Ministers, bankers businessmen and trade unionists). The Fund, as the first nucleus of a Federal European Central Bank, would from today onwards, according to Masera, acquire precise and important responsibilities, assuming the functions of a technical secretariat and study center for the Committee of Governors of the EEC and for the groups of national central bank experts that would meet regularly to evaluate the degree of convergence in EEC monetary policy and to examine methods for the promotion of efficacious and constructive harmonizing of interventions.

Moreover, the European Monetary Cooperation Fund would acquire a direct operative function through the emission of conditioned and unconditioned reserve balances which would constitute a European analogue to Special Drawing Rights denominated in "Europas." The reserve balances thus created would function in the place of gold deposits in the settlement of official

balances... Credit would be tied to progress achieved in individual countries in the process of adjustment. It would particularly favor consolidation of short term debts accumulated in the last few years as a way of overcoming the poor distribution of liquidity.

Such schemes do not necessarily require heavy

obligations on the part of the countries with strong currencies. It is rather a case of multilateralizing forms of financial support which have until now been carried out bilaterally... With the support of multilateral guarantees, international loans could be launched denominated in "Europas."