A PLAN FOR A FREE AND STABLE EUROPEAN MONETARY AND ECONOMIC UNION

By Dr. ANGHEL N. RUGINA

Northeastern University, Boston (Mass.) *

«Et la Patrie et l'Humanité».

Fr. von List

I. THE TASK AND SOME IMPORTANT LESSONS FROM THE PAST.

1. The Unification of a Conglomerate of National Monetary Systems

Europe of the 1970's has inherited an heterogenous combination of national monetary systems which have emerged over a period of time as independent entities under the influence of diverse historical circumstances. Each national monetary system has its own long history. A few points in general are pertinent and must be remembered.

In the beginning, all European currencies of the modern era were defined in terms of a certain quantity of gold or silver. In other words, they were represented by 100 per cent covered currency, or what Leon Walras called «numeraire». As long as full-bodied coins alone were in circulation, there was no problem in exchanging one currency for another. In fact, it made no difference which one was used in determining the exchange value of a given commodity or in having a final settlement of a foreign debt.

There was at that time no specific European monetary law, and yet these full-bodied coins circulated freely from one end of Europe to the other. This was the initial monetary unification of Europe which, unfortunately, soon was broken

* The author is Professor Emeritus of Economics and Finance and between 1965 - 1970 he was the Chairman of the Board of Economic Advisors to the Governor of Massachusetts (U.S.A.).

through the development of modern banking — specifically through the practice of monetization of debt or bank credit for the account of government and private business.

Once private banks began to print and circulate their own banknotes to finance industrial and business entrepreneurs, the original framework of metallic money was diluted and the phenomenon of inflation - deflation became inevitable. Later when private banks were forbidden to issue banknotes, they shifted to the creation of bankdeposits, i.e., another form of the same uncovered, weak and unstable money.

The recurrence of inflation - deflation as a result of the practice of monetization of debt by modern banks has forced European governments to interfere either by changing the official parity again and again or by manipulating the official rate of interest in combination with other controls of the economy, but never striking at the original cause of the evil — the monetization of debt or bank credit.

This, in short, is how the European monetary systems have become with the passing of time an heterogenous conglomerate. Today the task is once more the unification of this conglomerate so that the currency of one member of the European Community may again circulate freely from one end of the Continent to the other.

2. Why Did the «Modern Gold Standard» Fail ?

The modern gold standard could not survive the storm of the Great Depression in the 1930's, not because of deficiencies in its functioning at the international level but rather because of its diluted nature domestically and paradoxical behavior with cumulative fluctuations in prices, incomes and employment at the national level.

In view of the confusion prevailing today in the debate on the gold problem, we should finally recognize the stronger position of the modern gold standard in its international aspect. With its requirement of unconditional convertibility of national currencies into gold and the free circulation of gold from one country to another, the old gold standard before World War I contributed to an efficient unification of European currencies; in fact, to the development of a free and stable international monetary system for the more advanced countries.

An international monetary system, however, cannot function indefinitely isolated from the real status of the national currencies of the countries affiliated. Here lies the major weakness of the modern gold standard, which in its national aspect represented de facto a mixed monetary system in the form of an inverted pyramid where only about 10 per cent at the base was solid, stable gold-money, and the remaining 90 per cent constituted unstable paper- and credit - money.

Since at the international level only gold was accepted as the instrument for a final settlement of foreign claims and only gold-currency served as a standard of value, this combination represented a 100 per cent gold standard. This is the true reason why and how the old gold standard provided a free and stable monetary unification in international markets, a unification which, however, was weakened by a strong imbalance in its national structure. The inverted pyramid at the national level did not permit the fruits of international stability of foreign exchange rates to penetrate, without other difficulties, into the national economies involved.

In the end the mixed, imbalanced national structure brought the downfall of its otherwise healthy and strong international feature. There is a lesson here that we should have learned from this experiment, of the mixed modern gold standard with two faces.

3. Why Did the «International Monetary Fund» Fail ?

At the Bretton Woods Conference in July 1944, an international monetary system was planned which in reality incorporated the national structure of the old gold standard. Nobody objected at the time that this also meant transplanting the weakness of the old inverted pyramid to international markets.

The initial framework of the International Monetary Fund was indeed rather weak. The Articles of Agreement adopted at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, on July 22, 1944 which became effective on December 27, 1945, specified under Art. III, Sec. 3, that after each member country was assigned a quota of capital subscription, the obligation was «to pay in gold, as a minimum (b) the small of (i) 25 per cent of its quota; or (ii) 10 per cent of its net official holdings of gold and United States dollars. . . (c). Each member shall pay the balance of its quota in its own currency».

The mixture of 25 or 10 per cent gold and 75 or 90 per cent national paper - currencies, automatically revived the old inverted pyramid of the modern gold standard. Thus the International Monetary Fund from its inception was exposed to inherent instability. Indeed, because of the inverted pyramid structure, it had no chance of achieving a workable stable equilibrium in international financial markets, no matter how skilled were those entrusted with its administration.

The second weak point was in Art. IV, Sec. 1, which states under (a) : «The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar in the weight and fineness in effect on July 1, 1944».

We can see here how the US-dollar was equated with gold — which even at that time was not true since the dollar was not convertible in its own habitat, contrary to its international status. This meant that every time the dollar within the United States would face a serious crisis, the crisis would be transmitted automatically to the International Monetary Fund. This is exactly what happened on and before August 15, 1971.

The one strong point (besides a skilled administration) which supported the activity and partial success of the I.M.F. was the provision of Art. IV, Sec. 3 (I) limiting to a relatively narrow range of maximum 2 per cent (i.e., 1 per cent up and 1 per cent down) the permissible fluctuations of foreign exchange rates of the member countries.

Actually this was a simulation of the gold - points mechanism of the modern gold standard. Unfortunately, the Foreign Exchange Realignment Agreement of December 17, 1971 raised the permissible range of fluctuations to a maximum of 4.5 per cent, and thus eliminated this one relatively strong element in an otherwise weak framework of the International Monetary Fund.

There are specifically three lessons to be learned from the experiment with the International Monetary Fund :

(1) First, to avoid any mixed framework which contains the old inverted pyramid structure because it implies inherent and incurable instability;

(2) Second, to avoid granting any monopolistic status to a national currency of a member country since monopoly in any field sooner or later creates problems; and

(3) Third, to have continuous communication, and therefore consistency, between the structure of the international monetary system and the structure of the national monetary systems of the countries affiliated.

II. WHAT KIND OF A MONETARY AND ECONOMIC UNION?

1. What is the Choice in Terms of the Monetary System ?

In the first place, a free and stable European Monetary Union, if it is to function normally, must avoid past mistakes which have become evident from the experience with the modern gold standard and the International Monetary Fund. In addition, it must open a new road toward genuine and lasting financial stability.

So far the European Common Market has been successful because each member country has been free to develop its natural and human resources and skills to a relatively higher optimum according to national desires and aspirations. This was possible with the help of a larger common market where historical custom barriers were gradually eliminated. The aggregate of these relatively higher optimums in the individual performance of each affiliated national economy constitutes the strength and the rationale of the European Community.

It was then discovered that the heritage of diverse monetary systems hinders achieving even more spectacular results in the performance of the associated national economies. In other words, a unification of the existing monetary systems in Western Europe would create conditions for a better circulation and distribution of capital, labor and management, and thus would reach even higher optimums than was possible in the past under the Rome Agreement of 1956.

There is evidence here of an extremely important observation of great theoretical and practical value : An enlarged free common market is not enough per se to enjoy all the possible fruits of higher optimums in the new allocation of resources on a larger scale. It is also necessary that the enlarged common market be integrated with a unified and consistent monetary system.

What should be the basis and what is the choice in establishing a future European Monetary Union? We may select one of the following combinations :

(1) To make use of a 100 per cent covered currency, or what Walras called «numeraire», at both national and Community levels;
(2) To experiment with 100 per cent uncovered paper-money and monetized bank credit or «managed currency» at both national and Community levels;
(3) To adopt a mixed combination of covered and uncovered currency at the national level but to use only «numeraire» or gold-money at the Community level. That would be to revive the modern gold standard with its inverted pyramid in the domestic aspect.
(4) To make use of a 100 per cent uncovered money (managed currency) at the national level but to retain the mixed combination of gold-currency and uncovered «Special Drawing Rights» at the Community level. This would be to imitate the framework of the ailing International Monetary Fund with the inverted pyramid at the Community level.

How can we make the right selection among the four alternatives indicated above, remembering that many more combinations are conceivable? The only objective or scientific rule we have is that of stable equilibrium. Leon Walras was the first economist who discovered and formulated the law of general equilibrium for a national economy which requires a system of free markets with pure competition, where all prices are determined and expressed in terms of «numeraire», i.e., 100 per cent covered currency.

According to the rule of general equilibrium, the first combination of a 100 per cent covered money, at both national and Community levels, appears to be consistent beyond doubt with the proposed goal of a free and stable European monetary union. In this case, as explained later, the credit system is organized separately from the issue of money.

2. What is the Choice in Terms of the Economic System ?

There has been a lengthy debate on the question of whether the priority in taking adequate measures to achieve unification should be given to the monetary field (the so-called «monetarists») or to the economic field (the group called «economists»). The argument was whether to harmonize first the economic policies of the member countries and then see what steps would be necessary in terms of the monetary requirements, or vice versa?

On the other hand, hardly any discussion took place on another most fundamental question — namely, what kind of economic model or framework should be used as a standard of orientation in the construction of the proposed union? In this respect a choice could be made from the following possible economic systems :

(1) A Free and Stable European Economic Union in the form of an association of independent national economies, yet interconnected in a system of free markets unified at the Community level. This is what in German is called «Soziale Marktwirtschaft» (a social economy of free markets) but in this plan supported by an equilibrium type of monetary and financial system.

(2) A Centrally Planned and Controlled European Economic Union with a superimposed bureaucratic apparatus at the Community level to have full powers to manage the economic affairs of the affiliated countries. This is what in German is called «Zentralgeleitete Wirtschaft», or a government administered economy in conjunction with a 100 per cent paper - money and monetized bank credit.

(3) A Mixed System of an European Economic Union Type A, representing a compromise between the first two systems (1) and (2) but where characteristics of the first (1) combination prevail.

(4) A Mixed System of an European Economic Union Type B, again in the form of a compromise but in this case characteristics of the second (2) combination prevail.

(5) A Mixed System of an European Economic Union Type C, where the two basic combinations are equally represented.

In fact, there is the possibility of an unlimited number of mixed combinations which could form the basis of a compromise. Yet, the three selected mixed models are sufficient for our purpose.

Here we face the same problem of selection : What is the right choice among these many alternatives? It must be repeated that we have no other objective rule but the law of general stable equilibrium by Walras which requires a system of free markets with pure competition in conjunction with a 100 per cent covered currency system. Accordingly, the best choice is model (1) of a Free and Stable European Economic Union.

III. PRACTICAL MEASURES FOR THE REALIZATION OF A FREE AND STABLE MONETARY AND ECONOMIC UNION.

It is envisioned here that the necessary preparations for the establishment of a workable free and stable European Monetary and Economic Union would require about six months. The first and most important step is a serious searching of the mind among the financial experts and the political men in power in the affiliated countries to reach an agreement that the best foundation for the planned Union lies in the general framework oriented toward conditions of stable equilibrium.

Once this agreement is reached, this plan can be compared and evaluated with the other available proposals, specifically the «Barre - Memorandum» of February 12, 1969, which became : A PLAN FOR THE PHASES OF ESTABLISHMENT OF AN ECONOMIC AND MONETARY UNION.» (See : Commission of the European Communities. Secretariat General. Supplement to Bulletin No. 3 1970, Brussels, 4 March 1970.)

It is not intended to compare the two plans (actually based on two different models) but one fact deserves to be mentioned. The Barre - Memorandum has proposed to achieve the Union by stages (1970/71; 1972/75 and 1976/78), whereas in this plan the same objective can be realized in about six months after its acceptance.

A. Measures to be Taken at the Community Level.

Since the «United States of Europe» is still an issue of the future, the projected European monetary and economic union must have a clearly defined objective in terms of goals and prerogatives.

On the road toward the «United States of Europe», in this plan it is assumed that only matters related to the balance of payments and trade and financial agreements, with the rest of the world which affect the affiliated countries, would become the specific objective of the Union.

The existing national governments should carry the responsibility for enacting and preserving the internal rules of stable equilibrium, whereas the new European Monetary and Economic Authority would take care of the external conditions of stable equilibrium for all associated countries. This clear-cut distinction in the objectives would reduce to a minimum the possible conflicts on sovereignty between the Community and the various national governments until the «United States of Europe» may become a reality.

Once the internal conditions for stable equilibrium have been secured in each member country, this in itself brings a de facto European monetary and economic unification, and the Community would have eliminated the most difficult issue of centralized co-ordination of economic and monetary policies of the associated nations.

As a good precautionary measure, however, the new European Monetary and Economic Authority should reserve the preemptive rights of checking into each member country and ascertaining that indeed the conditions of stable equilibrium are established and function normally. If a given member has difficulties in this respect, the new Authority should provide necessary assistance.

1. In order to appear as an organized legal entity, the Community needs two important institutions : (1) A European Monetary Authority; and (2) A European Economic Authority. These could be conceived also as two independent sections of the same organization — The European Monetary and Economic Authority.
2. The European Monetary Authority shall be concerned with monetary matters related to the balance of payments of the member countries, including credit and loans resulting from financial arrangements with the rest of the world.
3. The capital of the European Monetary Authority shall be subscribed by the Central Banks of the associated countries according to some agreeable standard (population, gross national product and the size of foreign trade and finance).
4. The Administration of the European Monetary Authority (E.M.A.) shall be entrusted to a Board of Governors appointed by the national governments over a limited time, e.g., 10 years, and to serve as independent civil servants with European status. The rules of administration shall be included in special statutes.
5. A European Currency Unit (here called «EURO»), independent from any national currency yet affiliated with the monetary system of each member country, shall be issued by the E.M.A. only for international purposes, i.e., to serve as international liquidity reserves for the Community members.
6. The EURO shall be defined as the «numeraire» - currency of the Community equal to 43.75 grains of 9/10 fine gold. The official parity of the new European currency unit, therefore, shall be 10 EUROS for one once of gold.
7. The permissible fluctuations of foreign exchange rates will be within the limits of the gold - points or maximum 1 per cent up and down around the official parity.
8. The European Monetary Authority shall be divided further into two separate sections :

   (a) Department A. of Monetary Affairs to deal with the issuance and transfer of international liquidity reserves in the form of EUROS or other convertible currencies, and

   (b) Department B. of Banking Affairs to be concerned with the granting of available credits or making arrangements for medium and long term loans and investments for the associated countries.

9. The Monetary Department A. shall administer the deposits in gold of the member countries at the International Monetary Fund. In addition, each member shall be free to deposit with the Community Monetary Department as much gold as it wishes or needs to have converted into EUROS.
10. The Banking Department B. shall take over all the reserves in credit facilities including Special Drawing Rights of the member countries in the International Monetary Fund.
11. The European Monetary Authority shall represent all member countries as a bloc in the International Monetary Fund and other international organizations.
12. The Monetary Department A. shall have the prerogative of minting gold - EUROS for the account of a member country at the official parity minus a small discount to pay the cost of administration. The seal of the Community shall appear on one side of the coin and the seal of the respective member on the other.
13. The Monetary Department A. also shall have the prerogative of issuing Notes or opening Deposit - Accounts in EUROS for any quantity of gold deposited by a member or transferred to its account. A small discount will be calculated to reimburse the cost of administration.
14. The EUROS issued by the Monetary Department in the form of Notes, Deposits or any other sort of claim on demand shall be covered 100 per cent in gold at all times.
15. The EUROS in form of Notes, Deposits or other claims shall be convertible in gold unconditionally at any time.
16. The liquidity reserves in EUROS shall be used as a final settlement of differences in the balance of payments of the member countries between themselves and the rest of the world. As such they shall be freely transferable from one account to another.
17. To counter an old argument among economists, namely, that gold alone may not be sufficient to provide that additional amount of international liquidity consistent with a steady growth in foreign trade, a sort of security - valve mechanism is introduced. Consequently, it is recommended that the E.M.A. once launched should immediately study the necessary machinery for the monetization of an extra commodity selected at the discretion of each member but following certain rules of standardization.
18. Each member of the Community shall have the right to select, in addition to gold, another special commodity traded in international markets to be used as backing for an additional source of international liquidity reserves

called «Commercial - EUROS» as distinguished from official «Gold - EUROS».

19. Commercial - EUROS shall appear in the form of Notes or Deposits, 100 per cent covered at all times and freely convertible in the respective commodity which serves as backing.
20. The issuance of Commercial - EUROS shall take place at the market price of the commodity in question, less a small discount calculated to pay the cost of warehousing for a given period of time. The market price of this commodity is expressed in terms of gold - EUROS which are the official monetary standard.
21. The E.M.A. shall have a Branch in the Central Bank of each member country to administer the conditions for the monetization of the respectice commodity for international purposes.
22. There should be no statutory obligation for the Monetary Department of the Community to exchange official Gold - EUROS for Commercial - EUROS, even though the policy of the E.M.A. will be to provide conditions of free convertibility and take other measures so that the value of both be at par. Otherwise, the Gresham Law would create difficulties.
23. The monetization of Commercial - EUROS would induce real income and employment in the respective country besides being an additional source of international liquidity.
24. For the Community as a whole, the issuance of Commercial - EUROS also represents a sort of stabilization program for prices of the commodities involved.
25. The European Monetary Authority shall organize a «European Clearing House» to function in conjunction with the Banking Department. In this way a large portion of the claims derived from trade and other financial transactions could be settled by compensation without the need of any liquidity reserves or credit. At the same time, through the same channels, those countries with a deficit or surplus could be identified sooner.
26. The Banking Department shall be concerned to collect information about those countries which have a surplus as well as those which have a deficit in their balance of payments.
27. The Banking Department shall serve as an intermediary institution between creditor- and debtor - nations. It does not have the prerogative to create credit or monetize it but rather helps «real - credit» circulate from those countries which have a surplus in the balance of payments to other countries which have a deficit.
28. Those surpluses and deficits which cannot be settled through the facilities of the Banking Department shall be referred to the monetary Department where liquidity reserves are available for an immediate settlement of the claim in question. For this reason each member country must carry with the Mone-

tary Department a balance of international liquidity reserves in the form of official gold - EUROS and commercial - EUROS up to a reasonable proportion of the average volume of its international transactions.

29. The European Monetary Authority, according to this plan, is immune to the well-known financial crises of the past and of the present because the money market is separated from the capital markets. In addition the money market, where immediately available Gold - EUROS and Commercial - EUROS are traded, is kept 100 per cent liquid, i.e., covered at all times, and the credits and loans granted in the capital markets are entirely from real capital accumulation. There is no «hot money» in the system to move from one country to another for purely speculative purposes, and thus no chance for eruption of financial crises.

30. The European Economic Authority (EEA) shall have its Board of Governors appointed in the same way as the members of the E.M.A. Regarding the future, the main concern of the E.E.A. will be concentrated on trade and financial agreements between the Community and the rest of the world. In addition, it will also represent the Community at GATT meetings and any other international organizations and conferences on world trade affairs.

Regarding the present, the whole attention and work of the E.E.A. will be concentrated in the supervision and assistance to reach the economic unification of the Community at the level of individual national economies. This is to make certain that a more perfect system of unified and workable free markets throughout the Community has become a reality — a goal which is already in process of execution follwing the Treaty of Rome. The European Monetary Authority shall have the same task of supervision and help so that the monetary unification at the national level may be completed successfully.

B. Measures to be Taken at the National Level.

The bulk of monetary and economic unification of the Community is at the national level, growing from the grassroots by the initial consensus and conviction that this is the road for a better life of all associated countries without losing their national identity and historical aspirations. Nothing is imposed from above and precautionary measures are taken so that no member in the Community may enjoy special treatment or privileges at the expense of another member. Moreover, even within one and the same member country, this plan recommends effective reforms and rules so that vested interests inherited from the past would come to an end.

1. The basic rule of consistency between the economic and monetary system requires that a combination of free markets cannot function normally unless it is integrated with a 100 per cent «numeraire» or commodity - currency

system whereby the organization of credit in the economy is separated from the issue of money.

The use of paper - money together with monetized bank credit by the member countries of the Community has so far proved to be unmanageable. Indeed, uncovered fiat- and credit-money cannot be managed in such a way as to promote and maintain an equilibrium supply of money consistent with full employment, price stability and a balance of payments in equilibrium. This is now a historical fact. Confirmation came again from a survey made by a British Journal, «The Economist», on the economic outlook of Western European countries, a summary of which was published in the New York Times of May 7, 1972. It says : «Faced with inflation they have been unable to control, more and more governments in the past few years have resorted to some form of price policy». But the British experience in recent decades has proved the futility of price and wage controls, all because of insisting on the applicability of the doctrine of «managed currency» and on the preservation of status quo in banking and finance, contrary to the empirical evidence of the results obtained.

In order to avoid the futility of price and wage controls and the calamities of distorted free markets without financial stability followed by inevitable and yet unsuccessful government interventions, it is recommended that each member country of the Community on D-day switch from the present mixed and distorted free-market system to a most perfect system of free markets combined with a 100 per cent financial stability.

The major problem is how to conduct the shifting from the present day unstable to a stable system without creating other difficulties? Following the conditions for stable equilibrium enumerated before, here are the steps envisioned by this plan for the realization of the proposed goal :

2. Each member of the Community has, at this moment, a certain degree of inflation due to the issuance of paper - money and monetization of bank credit.

3. First of all, this domestic inflation must be reduced to a neutral level where the supply of money can be expressed in terms of «numeraire», or 100 per cent covered currency. The introduction of a new, heavier currency unit to replace old inflated money can do this job. The total supply of inflated money is composed of : (a) Banknotes of, and Deposits with, the Central Bank, outstanding or in circulation; (b) the aggregate volume of Demand Deposits and net balances of Current Accounts in the banking system; and (c) savings in the banking and financial companies which are convertible into official money without 30 days notice.

4. The ratio between the new, heavier currency unit versus old currency will differ from country to country because of a difference in degree of the existing inflation. Assuming that the backing of the new currency is gold, the ratio

will be equal to the relation between the total supply of inflated money on D-day and the new supply of gold-currency, with a small safety margin for possible errors.

5. To complete the conversion from the old to the new monetary system, it is necessary to know the new official parity for each member. It is recommended that the new parity for each national currency be equal to the new parity of the EURO, that is 43.75 grains of 9/10 fine gold. Thus the official price for gold and the foreign exchange rates expressed in EUROS or any other national currency would be the same. In fact, this would be a complete unification of the national monetary systems included in the Community.
6. Assuming that the ratio of conversion in a given country was 20 : 1, then on the same D-day all prices, incomes and all sorts of obligations and claims (domestic and foreign) including taxes, must be reduced by the same ratio so that no one gains or loses anything.
7. After D-day gold may be presented at the National Central Bank in any quantity to be monetized at the new official parity, minus a small discount to pay for the minting cost.
8. The National Central Bank shall be required by law to keep all Notes, Deposits or any other outstanding claims, 100 per cent covered in gold at all times.
9. To have a greater flexibility of the national monetary system and to dispel also any doubts that there might not be enough gold, the National Central Bank of each country shall be free to select an additional commodity to be monetized under the same rule of 100 per cent coverage and at the free choice of the people, after the cost of warehousing for a definite period is reimbursed. This can be the same commodity which was selected at the Community level to serve as backing of additional international liquidity reserves in form of «Commercial - EUROS».
10. The Notes and Deposits created by the National Central Bank in the course of accepting the additional commodity shall be 100 per cent covered at all times and convertible into the respective commodity without any conditions. This should be identified as «Commercial - money».
11. It is the task of the National Central Bank to take appropriate measures so that the official gold-currency will circulate at par value with commercial - money. Yet the Central Bank should not take any statutory obligation to convert commercial - money into official gold currency on request and in any quantity. Each form of currency shall be convertible by law only in its proper backing even though in practice, having the same value, their use will be interchangeable.
12. An immediate reform on the same D-day of the existing banking system is absolutely mandatory. Monetization of debt, for private and public account, practiced by private banks is automatically inflationary and therefore con-

trary to the public interest. In fact, the major cause of financial crises in the capitalist system lies in the practice of monetization of debt by private banks with the support of Central Banks. Any better society of tomorrow cannot tolerate this inherited situation of a contradiction between a system of free markets supposedly workable and the financial instability inflicted by modern banks through monetization of debt in competition with each other.

The stabilization of the capitalist system within the boundaries of the European Community, among other things, requires a change in the banking system to correct the inherited contradiction that produces distorted results on otherwise sound free markets. The building up of monopolies and the opportunity to apply oligopolistic market strategy are financed also through monetization of debt by modern banks.

For these reasons, this plan recommends that monetization of debt for private and public account be prohibited by law. Consequently, any bank (private or public, domestic or foreign) which receives deposits and savings and is engaged in lending business, starting on D-day should divide its activity in two different sections :

(a) Department of Demand Deposits and Checking Accounts shall only be concerned with receiving demand deposits and opening checking accounts. All demand deposits on D-day and thereafter shall be covered 100 per cent in official money or commercial currency, depending on how the original deposit was made. On D-day existing demand deposits in the banking system would be included in the total supply of money, and therefore after the conversion they will be 100 per cent covered.

(b) Department of Savings, Loans and Investments shall be free to grant loans and make investments (short-, medium- and long-term) up to the amount of its own capital and the available savings entrusted to them by the public, including business and government agencies.

The separation between the manipulation of liquid funds (demand deposits) and the use of capital (savings) is not arbitrary and will not harm the further development of banks. On the contrary, through this reform, the existing unstable framework of modern banking will be made stable. In fact, the separation of the two departments is required by the law of stable equilibrium which provides that money market (liquid funds) shall be independent from the capital markets because they perform two different functions.

It is the complete separation of the two markets that makes possible the development of genuine equilibrium interest rates on the money market and on the capital markets; and this means financial stability of the whole economy. In the capitalist system of today, a position of stable equilibrium on either of the two markets, and consequently in the economy, is impossible. Indeed, for purely speculative reasons, big chunks of funds constantly move in and out of the money market into the capital markets through trading in securities, making impossible the establishment and functioning of equilibrium rates of interest in the economy.

13. The European Monetary and Economic Authorities once in existence should conduct a study in every member country to find out whether and how much pure speculations in the securities and organized trading in the commodities markets may contribute to financial and economic instability. This is another very sensitive and controversial subject. On ther other hand, the prohibition of the monetization of debt and other conditions of stable equilibrium reduce the possibility of pure speculations to a minimum, if not to zero.
14. For the transitional period and beyond, each member of the Community should consider the introduction of a constitutional law of «OMENIA». The term «omenia» is an intranslatable Romanian expression indicating that kind of human behavior which does not create harm or problems for other fellow men and/or society as a whole. In practice «omenia» equates the concept of social and economic justice in its full meaning.

The law of «omenia» would require any person, business or manufacturing corporations (private or public, domestic or foreign) to calculate the price of a given transaction at the real cost of acquisition (manufacturing or farming) plus a normal rate of profit, not higher than the opportunity cost of management and of course including taxes. This law would put all sectors of the economy (private and public, including foreign corporations) under one and the same unified basic rule for determination of prices, whereby not only freedom of transaction but also the requirement of social and economic justice is considered.

If we add now the forces of competition in a system of free markets to the Law of «Omenia» and together with a stable monetary and banking system as outlined before, we are «sur la bonne voie», as the French would say, that is, on the road to equilibrium prices equal to the least cost of production and consistent with full employment. In addition, this is the road to a complete economic and monetary unification of all members of the Community without the need of a bureaucratic octopus at the national or Community level.

A rigorous application of the Law of «Omenia» would annihilate the possibility of unjustified extra monopoly profits and thus resolve the old problem of a conflict of interest between certain profiteering business firms and modern society. After that the behavior of organized labor unions and any other organizations with vested interests inherited from the past have to change and be consistent with the new conditions of stable equilibrium.

Not less important, finally, is the fact that the Law of «Omenia» would settle the historic conflict between agriculture and industry under modern capitalism, a problem that already has produced great difficulties for the Community.

IV. THE PROBLEM OF THE ACCUMULATED U.S. DOLLARS IN EUROPEAN CENTRAL BANKS.

1. The «Imported inflation» from the U.S.A.

There is one important subject which intentionally was not included in this plan; that is the issue of how to treat the avalanche of American dollars that in recent years has invaded the Central Banks of the members of the European Common Market? And this is not an easy problem, keeping in mind that the magnitude of this avalanche is estimated between $ 300 and $ 400 billion and is growing every day! It was reported that on a single day, Friday, July 14, 1972, European Central Banks bought $ 1.5 billion in order «to keep the dollar from going through the floor fixed by the Smithsonian Agreement» of December 18, 1971. The previous day the same European Central Banks bought $ 850 million for the same purpose. (See : New York Times of July 19, 1972).

As a matter of principle any liquid reserves in US - dollars could not be a part of this plan because after August 15, 1971 they officially have no backing — they are irredeemable paper money. In fact, American dollars after that date have become an anti-«numeraire» type of currency and as such cannot be accepted as a part of any plan of monetary stabilization at either national or international levels.

Under the existing conditions, the acquisition of US - dollars by European central banks and private banks too, automatically induces a change in the supply of money in the respective country, either through an increase in the volume of official currency or through a jump in the aggregate amount of monetized bank credit. This is what is called an «Imported Inflation» (made in the USA) which has to be fought by European domestic policies of restraint of employment and incomes. This is a perpetual complaint by European officials who face this type of problems.

2. The Transactions in US - Dollars within the Community will be separated from the issue of Money

The situation will be entirely different when this plan is put into action. The flood of US - dollars into the Community will stop under the new monetary order. After D-day neither the European Monetary Authority nor any European central bank is obligated or has any interest to acquire American dollars associated in the past with a change in the current supply of money. To be sure private persons and business firms may continue to accept or buy US - dollars at whatever price they can and for whatever purpose they need, but these transactions are of purely private nature and would take place on free markets outside of the issue of official money.

The new European foreign exchange rates will be completely independent from the American dollar and any other irredeemable currency. According to this plan the European Monetary Authority will have no need and no means to support a particular foreign currency in day-to-day transactions on foreign exchange markets. Of course, the Community may arrange loans and credits to other nations through the Banking Department of the E.M.A., but these are limited to the existing surpluses in the balance of payments of the member countries and therefore do not change the existing supply of money or the official foreign exchange rates in Gold-EUROS.

European private banks after the reform will not be able to change these patterns because the monetization of bank credit will be forbidden in every member country of the Community. In addition, the money market, as far as related to the banking system, will be 100 per cent covered by official money so that these are no available funds (bankcredits) to be used for pure speculations in foreign exchange markets.

3. The Future Value of the US - Dollar Will Not Affect the New European Monetary System

Only when the European Monetary Authority and the European central and private banks will cease to buy US - dollars shall we have an opportunity to assess the real strength or weakness of the American dollar in international markets. Very probably the value of the dollar on European markets will fall but not to the point of a collapse, because the American economy is still a strong one compared with the rest of the world, and the immense volume of American investments throughout the world will continue to stand behind the dollar.

There will be, however, a radical change in the position of the dollar in international markets. Once the European Monetary Authority stops any further accumulation of US - dollars and the already accumulated dollars are not considered as a part of the official liquidity reserves, the previous function of the dollar as international currency will come to an end. This in turn will not and cannot produce a financial crisis for the Community because the new stable Gold - EURO will immediately become a reliable international currency. The new European monetary system will be 100 per cent covered and therefore immune to any financial pressure from within or without.

Neither does the rest of the free world necessarily need to suffer the ordeal of a financial crisis due to the depreciation of the American Dollar. First, those countries can use the European Gold - EURO as an international currency unit of account instead of the dollar. Second, the same countries meanwhile may learn from the experiment of the European Monetary Union how they themselves can create international liquidity reserves at home if they agree to conduct the necessary reforms. By that time even the U.S. government may see that there is no choice but to undertake a serious stabilization program of the dollar following the European patterns.

4. A De Facto Devaluation of the Dollar in the New System will Not Penalize European Exporters

Another important question may be raised. When after D-day the value of the US - dollar possibly could fall or float on European markets, would that not mean a de facto devaluation of the dollar and implicitly a revaluation of the new European monetary unit (EURO) and other European currencies, thus creating difficulties for the European exporters in international markets? The answer is «yes» but only for the monetary order of the past and not under the new system. The new European monetary system, as envisioned in this plan, would be 100 per cent covered at both national and Community levels and therefore immune to the negative effects of a de facto devaluation of the dollar. In other words, the EURO and other European currencies do not need to be revalued under such circumstances.

As mentioned before, the buying and selling of dollars after D-day will not affect the internal supply of money and the official foreign exchange rates, and therefore the prices for exportable European goods will remain the same as before being expressed in stable EUROS. The American businessman importing European or other foreign products will continue to have his own problem of adjusting his prices to the existing inflation, but that is a different issue pertaining to conditions inside the United States.

Under prevailing circumstances, the European exporters make their invoices in US - dollars and when the dollar is weak and the European currencies revalued, they must charge more in dollars. This over-charge makes their products appear relatively more expensive and therefore less competitive when compared with similar products from other countries. Revaluation under the old system penalizes the exporters of the respective country.

In the new system recommended in this plan, there is no need for revaluation of European currencies whenever the dollar or any other irredeemable currency has been depreciated or falls during its floating.

5. An European Common Trust Fund of American Dollars

It is recommended that the already accumulated amount of American dollars in the hands of the European central banks (on D-day transferred to the European Monetary Authority) be handled in a separate Common Trust Fund used to pay for current imports of merchandise and services from the United States or to buy American securities and long term bonds of the U.S. government in the free markets or through a special arrangement.

It is true that a de facto devaluation of the dollar will encourage imports of American products into the Community but only so far as these imports are paid for with accumulated dollars. This will produce no difficulties to the balance of payments of European countries because such payments do not affect the foreign exchange rates and in fact do not appear in the official balance of payments.

After all reserves in accumulated dollars are exhausted the transactions will enter into normal patterns of international trade under conditions of stable equilibrium where the gold-points mechanism and the gold specie adjustment will preserve foreign exchange stability and a balance of payments for both Europe and the United States in orderly fashion.

V. END RESULTS

A. At the National Level. The application of this plan would help each member of the Community to achieve a number of important things :

1. To establish for each national economy a general framework of stable equilibrium — a moving machinery composed of many parts consistent with each other and the whole.
2. To provide an equilibrium supply of money, sufficient and flexible enough to assure a balanced economic growth and financial stability.
3. To introduce a free and stable framework for the banking system. This will put an end to the familiar uncertainty and loss of confidence in freedom, due to the ever present danger of inflation - deflation through fast monetization or demonetization of debt.
4. To realize the proper conditions in terms of the monetary-, banking- and public finance system so that a chain of free markets may function normally in the sense that no conflicts may arise among the principal goals of full employment, price stability and the balance of payments in equilibrium.
5. To integrate into the price - system of free markets also the requirement for social and economic justice through a special constitutional law of «omenia» in business transactions.
6. To create an environment conducive to the optimum allocation of resources (human and natural) and the highest possible level of real income spread among the large masses of the populace; and all these benefits at the cost of the least amount of government intervention and bureaucracy.
7. To accomplish the old dream of a truly democratic society where people govern themselves for most things needed in life and the government has limited, delegated powers necessary to preserve the framework of this ideal form of

society, and to provide for those public services which are indispensable to a civilized life and which the people could not achieve by themselves.

8. To give up only a relatively small portion of national sovereignity, specifically the administration of the balance of payments and the conclusion of foreign trade agreements, in return for the privilege of participating in the fruits of higher productivity due to a free and stable European Monetary and Economic Union.

Having enjoyed the benefits of a better life under the new conditions of the monetary and economic union, the people would have good reasons to think and accept the idea that other issues such as national defense and foreign affairs or perhaps the whole political structure be channeled into the same goal of unification. So that the public would not be faced with a fait-accompli, they should be convinced in advance that «Union» means strength, gains, more security — in one word, «progress», for all associated nations! This would be the sure, solid road toward the «United States of Europe» by free and enlightened consensus.

B. At the Community Level. The application of this plan would lead to the achievement of other important, desirable results :

1. To establish a general framework of stable equilibrium within the Community so that the proposed union would raise the least amount of problems and also would be strong and viable at all times.
2. To realize a monetary unification of a conglomerate of diverse national monetary systems without creating conflicts of interest between the Community and the affiliated members. This is possible because the monetary framework at both Community and national levels is of the same nature, i.e., consistent with conditions of stable equilibrium.
3. To realize an economic unification of many different national economies by neutralizing existing monopolies and oligopolies through the law of «omenia» in business and reinforcing a truly workable system of European free markets with a 100 per cent stable monetary and banking system.
4. The proper object of the European Monetary Authority is restricted to the administration of the balance of payments of the member countries and the necessary monetary and banking machinery to settle possible deficits or surpluses. In addition, it will supervise the monetary unification carried out in each member country at the same time.
5. The proper object of the European Economic Authority is also restricted to the administration of foreign trade agreements of the member countries with the rest of the world, but in addition, it will supervise the economic unification conducted in each affiliated country in a parallel action with the monetary unification.
6. Each member country, by using the facilities of the European Monetary and

Economic Authority, would need only a minimum of international liquidity reserves for orderly maintenance of its balance of payments.

7. The stabilization of a European money market which would be 100 per cent liquid at all times and therefore immune to those financial crises frequently affecting the capitalistic system in the past as well as in the present. There will be no more «hot money» to move from one country to another within and without the Community. The money market will be completely separated from the capital markets.
8. The development of strong and stable capital markets throughout the Community where the accumulation of capital would be placed at the desires of the people to achieve more or better technology, i.e., a better life in the future. Investments would tend to be equal to capital formation in form of voluntary savings and thus fulfill the classical condition for stable equilibrium.
9. It is not necessary to develop an expensive and to a certain degree unproductive bureaucratic octopus at the Community level. The European Monetary and Economic Authority will not interfere in the internal affairs of the associated countries as long as they respect the agreed framework of conditions of stable equilibrium in the economy, money, banking and finance.

* * *

A free and stable monetary, banking and financial order combined with a system of free markets at both national and Community levels is the best possible foundation for a strong, workable and lasting European monetary and economic union.

The European Monetary and Economic Union, as envisioned in this plan, would not be another bloc between «Western Capitalism» and «Eastern Socialism», but rather a large area of a «Free and Stable Common Market», where a new synthesis of a better society of tomorrow would be molded. This new synthesis would provide further a peaceful and constructive solution to the historic confrontation between «Capitalism» and «Socialism», which would really reduce the potential of World War III and thus preserve peace.

Finally, this type of monetary and economic union may serve as an example for the reorganization of the International Monetary Fund now embattled as a result of the financial crisis triggered by the suspension of the convertibility of the American dollar in August, 1971.