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Britain and European monetary cooperation at the turn of the 1970s*

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【Abstract】

For Britain, the sterling crisis of the mid 1960s particularly highlighted the vulnerability of its external position linked to the sterling balances problem, thus leading to the 1967 devaluation and then the 1968 Basle Agreement. This perforce brought Britain to a realization of the impairment of monetary sovereignty, so underlying the change that came over Britain's view on European monetary cooperation. Behind this, moreover, was the withering of sterling-dollar diplomacy, which had hitherto been considered an overriding relationship. In this setting Britain was poised for a European approach to sterling in the light of funding the sterling balances, which was viewed as a process of regaining monetary sovereignty. A European approach to sterling, admittedly, failed and sterling ended its role as an international currency towards the mid-1970s, but there remains the fact that this approach was fanned into important political and economic interests of Britain at the turn of the 1970s, with the gradually fractured sterling-dollar diplomacy rendering Britain poised for Europe's aspirations to an economic and monetary union. This offers another prism through which to examine a 'managed decline' discourse.

【Keywords】

European monetary cooperation, the sterling balances, sterling-dollar diplomacy, Werner Report, a European approach to sterling

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The exigencies of the sterling crisis in the mid 1960s finally forced Britain into the 1967 devaluation, whilst urging furtherance of an international credit facility–the 1968 Basle Agreement. This indeed had the intended effect on the stability of sterling, but put a major blemish on the standing of sterling as a reserve currency, with a feeling of devastation that Britain would be on the verge of losing its monetary sovereignty. Schenk suggests that in the early 1960s there was a fundamental shift in Britain's attitudes towards sterling 'from encouraging the use of sterling as a reserve currency, to managing its decline': Chancellor of the Exchequer Maudling regarded 'it as a major aim of policy to free the UK economy from the inhibitions of reserve currency status', and J.S. Fforde of the Bank of England in 1964 saw that at the highest levels in the Bank there would not ' be dissent from the proposition that to get rid of reserve-currency status while maintaining our trading currency position would be a most desirable achievement.'[1] This notwithstanding, what actually ensued was a reorientation towards the opposite side: restoration of sterling as a reserve currency. Britain's prospective membership in the EEC prompted Fforde to harbour a rather encouraging picture: 'a good case for preserving a reserve currency if Britain were to join the EEC.'[2]

What the EEC meant in terms of economic and monetary union was an attempt at the amalgamation of the monetary sovereignty of EEC member economies, and at its root lay their serious concern over monetary sovereignty: the EEC would paradoxically lose monetary sovereignty, with the fear of a collapse of Bretton Woods forcing them to perform salvage operations for financing the deficit run up by the key currency country, the US. Furthermore, Jean Monnet envisaged that the transformation of the Common Market into an economic and monetary union should embrace sterling. This context nudged Britain into realistic policy options for shoring up its ruined monetary sovereignty in such a way as to carry itself along on a tide of European monetary cooperation. These developments underlay the change that had come over Britain's outlook on its monetary relationship with the US: the belief that the dollar and sterling as reserve currencies had common interests overriding all other consideration died out. It connoted the end of sterling dollar diplomacy or that of the special relationship in monetary terms.[3] With sterling dollar diplomacy paling almost into insignificance, Britain was poised to

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[1] C. R. Schenk, 'Managing the Decline of Sterling, 1960–73: A Multilateral Approach', paper presented to the International Economic History Conference, Helsinki, at www.helsinki.fi/iehc2006/papers1/Schenk.pdf, last accessed 23 Nov.2012, P.1. See also, Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992* (2010), p.31, pp.422-24.

[2] F .Capie, *The Bank of England, 1950s to 1979*, p.406.

[3] At the time of Heath's first visit to Washington in December 1970, Nixon spoke warmly of the 'special relationship', but Heath retreated modestly to the phrase of 'natural relationship'. C. Bell, "The 'Special Relationship'", M. Leifer (ed) *Constraints and Adjustments in British Foreign Policy*

throw its weight behind European monetary cooperation.

This article enhances our understanding of how Britain was poised for European monetary cooperation at the turn of the 1970s. It first introduces the 1968 Basle facility and its implications for Britain in the light of monetary sovereignty, then moves on to the Werner Report and the way Triffin, Monnet, Heath, and Conservatives envisaged European monetary cooperation. After sketching out how Britain addressed the Werner Plan, the article explores the way sterling as an international currency was dealt with in the negotiations for EEC membership, and finally considers the implications of Britain and European monetary cooperation in the light of monetary diplomacy.

I

The 1967 devaluation indeed 'was forced by a speculative crisis rather than by any crisis in trading account'.[4] The speculative pressure on sterling accelerated leads and lags in the speed of foreign exchange transactions, thus widening a deficit of short-term capital flows, but the crude fact behind it was a substantial rundown of the sterling balances: the official and private holdings of short-term sterling assets by overseas countries. In the tangled mid 1960s there was a sharp decrease in the overseas sterling balances held by both official and private holders: the balances, running at around £3,863 million at the end of 1962, decreased to £3,380 million at the end of 1968.[5] The 1960s witnessed sharp movements in the sterling balances when sterling was under pressure, with the balances greatly exacerbating the repeated sterling crises.[6] Furthermore, those crises were seen as a threat to international monetary stability, for 'any pressure on the reserves coming from the sterling balances would be a threat to the sterling parity.'[7] At the same time, there prevailed a kind of strongly embedded relationship between the dollar and sterling: the devaluation of sterling would become contagious in such a way as to lead to the erosion of confidence in the dollar and, as its attendant repercussions, 'a large rise in the market demand for gold, as well as in central-bank conversions for gold at the U.S.

(1972), p.114.

[4] A.P. Thirlwall, and H.D. Gibson, *Balance-of-Payments Theory and the United Kingdom Experience* (London, 1992), p.238.

[5] C.W. McMahon, 'The United Kingdom's Experience in Winding down the Reserve Role of Sterling', Group of Thirty, *Reserve Currencies in Transition* (New York, 1982) 'The United Kingdom's Experience',p.43; Bank of England, 'Overseas Sterling Balances 1963–1973', *Bank of England, Quarterly Bulletin*, 14, 2 (1974), pp.172-5.

[6] McMahon, 'The United Kingdom's Experience ', p.44.

[7] Ibid, p.45.

treasury…'.[8] This therefore fostered overseas central banks' willingness to cooperate with Britain in supporting sterling.[9]

On 25 September 1968 the second Basle facility was concluded.[10] In the new facility the safety net provided by twelve central banks amounted to $2 billion, enabling the Bank of England to 'draw US dollars or other foreign currencies as, and to the extent that, the sterling area countries' sterling balances, both official and private, fell below an agreed starting level, which was set at £3,080 million'.[11] The main purpose of the Agreement was to induce sterling balance holders not to diversify their balances. Britain, however, had to do it under an inexorable situation in which 'the OSA [Overseas Sterling Area] countries now wished, as a matter of policy, to diversify their reserves in order to make themselves less dependent on a single currency'.[12] Britain's objective, therefore, was to persuade its BIS partners 'not merely to offset fluctuations', 'but to underwrite potentially large-scale diversification'.[13] The crux was whether the '$2 billion facility would be enough to cover any prospective reduction in the OSA balances'.[14] The BIS partners could not place themselves behind Britain's assessment that the facility would be enough, as a result of which, Britain had to undertake negotiations with the OSA countries in order to ensure its relevance. That was an intractable situation, and nicely timed to moderate this situation was 'a good deal of nudging from the central bankers at their meetings in Basle'.[15] This contained 'some special inducement' to encourage the OSA countries to keep the minimum sterling portion of their total official reserves, which took 'the form of guaranteeing the value, in terms of US dollars, of the bulk of the OSA's official sterling reserves'.[16]

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[8] G.Toniolo, *Central Cooperation at the Bank for International Settlements,1930-1973* (Cambridge, 2005), p.388. See also J.K. Horsefield, *The International Monetary Fund 1945–1965: Twenty Years of International Cooperation, Volume I: Chronicle*, p.483

[9] McMahon, 'The United Kingdom's Experience ', p.44.

[10] The Basle facility dates back to 1961, aimed at stabilizing the foreign exchange market through bilateral support deals between the Bank of England and other central banks. The first Basle facility of 1966, seen as a further development of the 1961 agreement, included a number of short-term agreements totalling about $ 1 billion, largely three-month swap facilities. This facility was related specifically to the problem of the sterling balances, designed to help smooth fluctuations in the balances. See, S.Strange, *International Economic Relations of the Western World 1959-1971: 2 International Monetary Relations* (London, 1976), pp.85-6, Toniolo, *Central Bank Cooperation*, p.382, McMahon, 'The United Kingdom's Experience', pp.44-5

[11] Bank of England, 'Overseas Sterling Balances ', p.170.

[12] TNA T267/36, 'The Collapse of the Bretton Woods System 1968-1973', p.8.

[13] Ibid.

[14] Ibid.

[15] Ibid. This idea was originally suggested by the Swedish and Swiss representatives. See C. Schenk, 'Managing the Decline of Sterling 1960–1973:A Multilateral Approach', http://www.helsinki.fi/iehc2006/papers1/Schenk.pdf , pp.15-6.

[16] Ibid. As regards the dollar value guarantee, see Bank of England, 'Overseas Sterling Balances',

Indeed, 'the dollar guarantee arrangements had the desired effect of helping to stabilize the [sterling] balances, but in a sense worked too well'.[17] The overseas sterling area official balances rose, with a huge inflow of 'hot money' or 'volatile funds'.[18][19] These developments delivered a temporary restoration of sterling as a reserve currency, accelerated by an exodus from the dollar. The dollar's decline as the key currency obscured the vulnerability of sterling as a reserve currency amidst a huge turmoil in world currency markets at the turn of the 1970s. This transient stability, however, did not free Britain from harbouring serious concerns over the swing of sterling towards a weaker position in two senses. First, the turn of the 1970s saw an accelerating pace of inflation. It was the wage inflation which resulted from the rise in import prices since the 1967 devaluation. With import prices rising by about 22 per cent since devaluation, the ending of incomes policy provoked a reaction to the severe restraint on incomes during 1965-68, building up increasing pressure for higher wage rises.[20] The year 1970 saw the signs of a wage-price spiral, and this spiral, it was feared, would vitiate the benefits of devaluation.[21]

Secondly and more importantly, a sense of an inexorable decline in monetary sovereignty became embedded in the thinking of the Treasury. The second Basle Agreement really fostered a sinking feeling that sterling might go downhill from being the second reserve currency. The sterling area countries holding their foreign reserves in sterling were allowed to buy and sell sterling in order to stabilize their own currencies, but 'this had a destabilizing effect on sterling',[22] and the agreement entailing a dollar guarantee on the official sterling balances placed restraint on the destabilizing effect. This, however, virtually implied a loss of confidence in sterling as the second reserve currency, because 'the fact that the bulk of a country's sterling holdings is guaranteed in terms of the dollar does not make sterling any more attractive than if this were not so'.[23] *William S. Ryrie*, Under-Secretary to the Treasury, suggested that Britain had successfully seduced other leading nations into concluding the 1968 Basle Agreement by exploiting the fears of other countries that 'the weakness of sterling could bring down the

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p.170.

[17] McMahon, 'The United Kingdom's Experience', p. 46.

[18] Ibid, p.46.

[19] Bank of England, 'Overseas Sterling Balances', p.168.

[20] TNA PREM 15/314, ' Inflation', p.4.

[21] TNA PREM 15/314, 'Inflation', p.3.

[22] J. Oliver, and H. Pemberton, 'UK Economic Policy in the 1960s and 1970s and the Challenge to Learning', the XIV International Economic History Congress, Helsinki, Finland, 24August 2006 at www.helsinki.fi/iehc2006/papers1/Oliver19, last accessed 6 March 2013,p.8.

[23] TNA PREM 15/329, 'The Sterling arrangements', 13 October, 1971, p.2.

international payment system'.[24] Nevertheless, he could not brush off the depressed feeling that Britain would be on the verge of losing monetary sovereignty. The agreement brought Britain into the situation 'where the United Kingdom's short-term debts are so large that the country is in pawn to its creditors and has thus lost that important element of sovereignty which resides in unencumbered control of adequate foreign exchange resources'.[25] Notwithstanding this point, he was still confident that Britain could struggle to carry itself along on a tide of European monetary cooperation. Britain, although overwhelmed by sentiments of vulnerability, rather steered itself into regaining monetary sovereignty, in the expectation that 'the time is ripe for the U.K. to launch a new monetary initiative in Europe'.[26] Thus, the question that needs addressing is how Britain addressed European monetary cooperation, particularly the Werner Plan.

II

Before going any further with Britain's response to the Werner Report, it might be worth pausing to reflect on Europe's struggle for monetary cooperation at the turn of the 1970s. The Werner Report was released in October 1970.[27] What prompted this report was a manifest perturbation of Bretton Woods in the late 1960s. A deteriorating trend of the US external position caused the accumulation of foreign dollar holdings, thus raising doubts on the ability of the US to honour its commitment to dollar-gold convertibility. Although the formal suspension of dollar-gold convertibility occurred in August 1971, the actual conversion of foreign official dollar holdings ceased after 1968, with large conversion demands being strongly resisted.[28] What emerged against this background was a rise in the trend towards exchange rate flexibility: the IMF seriously entertained the possibility of replacing a fixed but adjustable par value system with one that would permit a greater degree of exchange rate flexibility.[29] Floating exchange rates, however, were not practicable, given the interdependence of European trade and economy. Many European leaders feared that 'the adoption of a more flexible exchange rate system would

[24] TNA PREM 15/053, 'Paper on "Proposals regarding United Kingdom Participation in a European Monetary System"', by W.S. Ryrie, 23 October 1970, p.1.
[25] Ibid.
[26] Ibid.
[27] Commission of the European Communities, *Report to the Council and the Commission on the Realization by Stages of Economic and Monetary Union in the Community*,[*The Werner Report*] (Luxembourg, 1970). This report was completed by the group set up under Pierre Werner, the Prime Minister and Minister of Finance of Luxembourg.
[28] US Congress (Joint Economic Committee), *The European Monetary System: Problems and Prospects* (Washington, DC, 1979), pp.15-6.
[29] Ibid, p.16. See M.G. de Vries, *The International Monetary Fund 1966-1971:The System Under Stress', Volume I:Narrative* (Washington, D.C., 1976), pp.500-3.

ultimately destroy the EEC itself'.[30]

Amidst a growing fragility in Bretton Woods, the Werner Report envisaged complete economic and monetary union after stages of transition: narrower bands for the EEC currencies, policy harmonization, and the creation of a supra-national monetary authority. The report, however, spelled out only the first stage of the integration process, side-stepping the policy harmonization question by calling for a further feasibility study.[31] Behind this existed the conflict between two schools of thought–the so-called 'economist' and 'monetarist' approaches.[32] The former mainly embodied the views of Germany and the Netherlands, whereas the latter reflected those of France and Belgium. The core difference lay in the way monetary union should be achieved. The former approach argued that 'a high degree of economic convergence is a precondition for an EMU', thus paving the way for monetary union: the irrevocable fixing of exchange rates and a supranational monetary authority had to come at the end of a long period of policy coordination and economic convergence.[33] The latter approach, on the contrary, preferred 'the option of eliminating exchange-rate variability through a forced march to monetary union',[34] with an emphasis placed on 'the potential driving role' of exchange rate stability for the convergence of economic fundamentals.[35] The Werner plan finally sorted out the conflict between the two schools with the compromise solution: parallel progress in both the fields of policy co-ordination and narrower margins. The plan, however, 'did…err somewhat more on the side of the Monetarists than on that of the Economists', as illustrated by its proposal for the narrowing of the margin of fluctuation around the central parity of the participating currencies in the first stage.[36]

The Werner plan was in a quandary about how to reach a consensus on harmonizing monetary and economic policies. Furthermore, whilst attempting to realize economic and monetary union with the ultimate aim of a single currency in the final stage, the plan made 'no reference to any global role for it'.[37] In no foreseeable circumstances did it aim at competing with the dollar as the key currency. The plan, more precisely, lacked Europe's ambition to turn an envisaged single currency into a key currency. European central bankers still harboured an

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[30] Ibid, p.16.
[31] Ibid, p.23.
[32] D. Gros and N. Thygesen, *European Monetary Integration* (London, 1992), p.14, P. Coffey, *The European Monetary System – Past, Present and Future* (Lancaster, 1984), p.7.
[33] Coffey, *The European Monetary System – Past, Present and Future*, p.8; Gros and Thygesen, *European Monetary Integration*, p.14.
[34] B.Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (NJ Princeton, 2006), p.246.
[35] Gros and Thygesen, *European Monetary Integration*, p.14.
[36] Coffey, *The European Monetary System*, p.12.
[37] Gros and Thygesen, *European Monetary Integration*, p.28.

implicit tendency to rely on the Bretton Woods system which was on the verge of collapse at that time, and to attach far too great an importance to the role of the US dollar.[38]

The Werner plan indeed lacked audacity. There was, however, a crucial point worthy of attention in the Werner plan: the introduction of the idea of supra-nationality. The plan's significance rested on the fact that it explicitly introduced the idea of supra-nationality, endorsing a challenging view that economic and monetary union would realize a stage where 'the necessary powers will be transferred from the national plane to the Community plane'.[39] What was laid down as a crystallization of the idea of supra-nationality was the creation of a European Reserve Fund: 'The reinforcement of the intra-Community in monetary affairs must be effected as soon as possible by the establishment of a European Fund for monetary cooperation as a forerunner of the Community system of central banks for the final stage'.[40] More crucially, the idea of a European Fund aroused hopes in Britain that it would lead to the long-term settlement of the sterling balances by transforming them into long-term debt. This was also seen as a hopeful deviation from Basle-type assistance, because the BIS assumed that the conversion of the sterling balances into long-term debt was not feasible on the grounds that the balances were an amalgam of the liquid assets of governments, central banks, and private individuals.[41] Thus, for more light upon an undercurrent beneath Britain and European monetary cooperation, it is necessary now to move on to the way Britain addressed the Werner plan.

III

First of all, a discussion of Britain's accession to the EEC in the light of monetary aspects had already taken place before the Werner Report was made public. The Hague Summit in December 1969 marked an important watershed for the transformation of the EEC into an economic and monetary union and its enlargement. Following on from this was the Sixteenth session of the Action Committee for the United States of Europe, which issued a statement called 'Resolutions' aimed at the development of the Common Market into an economic and monetary union. The Action Committee was established by Jean Monnet in 1955 after he resigned as President of the High Authority of the European Coal and Steel Community (ESCS) in 1954. The Committee was a trans-European network of integrationalist lobby groups,

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38 Coffey, *The European Monetary System*, p.12.
39 Commission of the European Communities, *The Werner Report*, p.26.
40 Commission of the European Communities, *The Werner Report*, p.29.
41 McMahon, 'The United Kingdom's Experience', p.44.

constituted of leading individuals from political parties and trade unions.[42] Its main objectives were not only to demonstrate the determination to take 'a veritable step toward the United States of Europe', but to assure the close association of Britain with the projects for the United States of Europe.[43] In the 1960s, with de Gaulle dismantling not only the Community spirit but the entire Atlantic Alliance, Monnet attempted to reconcile the Common Market with the Kennedy administration's 'Atlantic Relationship'.[44] For Monnet, British entry into the Common Market was the key to the restoration of the Atlantic Relationship between the US and Europe. When de Gaulle's power was shaken in 1968, Monnet grasped the opportunity to invite Britain's main political parties–the Tories, Labour, and the Liberals – into the Committee.[45] 'Resolutions' came out in this context, and its importance should not be neglected, particularly in terms that the Committee considered British membership of the EEC in the light of European monetary integration.

In 'Resolutions' the Committee explicitly made a strong call for Britain's early entry into the Common Market in the context of an economic and monetary union: '…the Community must continue to establish its economic and monetary union, and do so in consultation with Great Britain. Great Britain would participate fully in this development as soon as she joined the Common Market'.[46] Monnet, known as a French Anglophile, made a push for British entry into the EEC, taking advantage of de Gaulle's resignation in April 1969. Robert Triffin, a Belgian-born economist best known for his penetrating critique of Bretton Woods, provided the theoretical grounds for 'Resolutions' by submitting two reports: 'On the monetary aspects of the accession of Great Britain to the Common Market' and 'On the creation of a European Reserve Fund'.

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[42] B.Szele, '"The European Lobby": The Action Committee for the United States of Europe', *European Integration Studies,* Miskolc, 4, 2(2005), pp.109-20. The most important political figures of Europe and Britain were on the list of the members of the committee: Willy Brandt, Helmut Schmidt, Kurt Kiesinger, Reginald Maudling, Alec Douglas-Home, Selwyn Lloyd, George Brown, Jeremy Thorpe, and so on. See Action committee for the United States of Europe, 'Resolutions', 15 and 16 December 1969, Churchill Archives, BARN 6/5, pp.7-8.

[43] J. Monnet, *Memoirs,* translated from the French by Richard Mayne (New York, 1978), p.413. One of the important backgrounds to a set-up of the Committee was the abortion of European Defence Community (EDC) in 1954. After the failure of the French to ratify the EDC treaty in 1954, 'Monnet sought a new strategy to restart the move toward integration.' See F. J. Fransen, *The Supranational Politics of Jean Monnet: Ideas and Origins of the European Community* (London, 2001), p.115.

[44] Fransen, *The Supranational Politics of Jean Monnet*, p.116.

[45] The Labour Party nominated George Brown, Walter Padley, and Michael Stewart as the representatives. In the Conservative Party Reginald Maudling, Sir Alec Douglas-Home, and Selwyn Lloyd were listed, and Jeremy Thorpe represented the Liberals. See Monnet, *Memoirs*, pp.492-3.

[46] Action Committee for the United States of Europe, 'Resolutions', 15 and 16 December 1969, Churchill College Archives, BARN 6/5, p.3.

The claim made by Triffin in these reports was to foster a close association between Britain and the EEC in the process of the creation of a European Reserve Fund. Most crucially, his embrace of European monetary cooperation was interwoven with his pessimistic view of a floating rate regime. His pessimism on the regime furthermore assumed a geo-political tinge. He was gripped by the fear that, as long as national currencies such as the US dollar and sterling continued to play the role of international currency in spite of their persistent deficits, 'the increased flexibility of the exchange system', coupled with the inability to harmonize divergent national policies, would create enormous problems for the EEC.[47] What he most feared was that, if the US found itself forced to float the dollar, the EEC would be faced with a serious dichotomy amongst member countries in terms of their response to the surplus dollars; some Community countries would be inclined to absorb the surplus dollars in order to prevent a sharp appreciation of their currencies, whereas others would refuse to finance indefinitely the US deficits arising out of policies with which they disagreed.[48] Triffin forecast that '[t]he monetary, economic and political unity of the European Economic Community would inevitably founder in the most redoubtable chaos', if it were to fail to reach agreement on the way to cope with the surplus dollars. [49] Not only was he deeply sceptical about the floating regime, but he was also puzzled about the fact that dollar and sterling balances absorbed the surplus saving of the Community countries as their monetary reserves in the last twenty years, 'but without any common design, and more and more as a result of salvage operations imposed by the fear of a collapse of the world monetary system'.[50] He thus became enamoured of a new design of 'a genuine European monetary area', because it would be 'essential to prevent the disintegration of the Community, or its de facto absorption in a "dollar area"'.[51]

Monnet echoed Triffin. He also realized the risk that the EEC would paradoxically lose monetary sovereignty by protecting it jealously, especially 'in the continuing drift towards a dollar zone, and the continuing and uncontrollable financing of the deficits run up by the so-called reserve currency countries–the United States and Britain'.[52] He thus envisaged that the merger of monetary sovereignty would rather gain new strength. This realization was the crucial driving factor for his aspiration to an economic and monetary union. He said in a letter to Willy Brandt, Chancellor of Germany, that: 'The transformation of the Common Market into an

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[47] R.Triffin, 'Report on the Monetary Aspects of the Accession of Great Britain to the Common Market', Churchill College Archives, BARN 6/5, pp.2-3.
[48] Ibid, p.4.
[49] Ibid.
[50] Ibid,p.5.
[51] Ibid,p.3, emphasis in the original.
[52] Monnet, *Memoirs,* p.495.

economic and monetary union, the beginnings of political union, and negotiations with Britain–all are possible, on one condition'. [53] At its root was Monnet's acute awareness of the relationship between currency and sovereignty in a transition to the post-Bretton Woods era. He suggested:

> ….the currency was still regarded as an almost magical expression and weapon of national sovereignty… Once again it had to be demonstrated…that national sovereignty withers when entrapped in the forms of the past. *For it to be effective, in an expanding world, it needs to be transferred to larger spheres, where it can be merged with the sovereignty of others who are subject to the same pressures. In the process, no one loses: on the contrary, all gain new strength.*[54] (My italics)

Triffin's idea, more interestingly, stretched to incorporating sterling and the sterling balances into a genuine European monetary area. Firstly, Triffin was firmly of the opinion that the accession of Britain to the Common Market would improve the British current balance in two ways. One was that it would increase the productivity of British firms, by exposing them to the increased pressure of international competition, and the second was that it would enable British firms to profit from the new outlets for their exports opened up on the Continental markets.[55] As a result of these effects, he expected that a virtuous circle would occur in such a way that foreign capital from the US as well as the European continent itself would be attracted to the UK markets, thus causing 'increased investment and the modernisation of the British industrial apparatus'.[56]

More importantly, Triffin never considered that Britain was in an insolvent position, although its external position had a serious problem with liquidity. The figures for the British external balance during the five years from 1964 to 1968 showed that, whilst the accumulated current account deficit over the years was less than $1 billion, its reserve recorded a sizable $8 billion loss, which was mainly financed by support obtained from the major central banks and the IMF; it was long- and short-term capital exports that absorbed the remaining $7 billion.[57] What absorbed a substantial part of external financial support was 'the repayment of the excessive indebtedness represented by the sterling balances swollen by the Second World War under the gold exchange standard system'.[58] It was, however, this external financial support

[53] Ibid.
[54] Ibid.
[55] Triffin, 'Report on the Monetary Aspects', p.6.
[56] Ibid., p.7.
[57] Ibid., p.9.p.14.
[58] Ibid.

that enabled Britain to maintain its position as a major capital exporter. 'The country's net external assets … at the end of 1967 were almost the same level as at the end of 1964($4.5 billion).'[59] The figures for the United Kingdom external balance confirmed that 'the essential problem raised by the external debts is one of liquidity rather than of solvency'.[60] Triffin concluded that the solution of the illiquidity of Britain's external position should lie in 'the conversion of the sterling balances… into reserves on the International Monetary Fund and /or a European Monetary Fund'.[61] Linked with this was the idea of a close association between Britain and the Community countries, which would allow 'the re-creation of a genuine European financial and monetary market'.[62] His imagination conjured up a vision of this integrated market bringing London as the leading financial centre within its ambit, which could be 'comparable to that played by England alone up to the 1914-1918 War'.[63]

Edward Heath did not join the Sixteenth session of the Action Committee. It seems highly probable, however, that he fully noticed the 'Resolutions' and the Triffin Report, for he had maintained an intimate relationship with Monnet since the early 1960s. Monnet greatly appreciated Heath, because Heath's ability and energy 'marked him out for a leading role in the British Conservative Party' and Heath persistently addressed the need for Britain to partake in the building of Europe in spite of its intrinsic difficulty.[64] It would not be off the point to assume that Heath echoed Monnet and Triffin in contextualizing British membership of the EEC in the process of economic and monetary union. In March 1967, when he was Leader of the Opposition, Heath delivered a speech at Harvard, where he emphasized 'a need for the international liquidity problem to be dealt with in the context of…British membership of the Common Market'.[65] In his *Foreign Affairs* article of 1969, Heath suggested that: 'In effect, a European solution had then to be found for this problem [the problem of the sterling balances]. The Basle agreements contained arrangements which could well have been a part of such a European solution'. [66]

How did the Conservative Party react to Triffin's idea? The Conservative

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[59] Ibid.
[60] Ibid.
[61] Ibid.
[62] Ibid., p.5.
[63] Ibid.
[64] Monnet, *Memoirs*, p.455.
[65] E. Heath, *Old World, New Horizons Britain, The Common Market, and the Atlantic Alliance (The Godkin lectures at Harvard University 1967)* (London, 1970), p.53.
[66] E. Heath, 'Realism in British Foreign Policy', *Foreign Affairs*, October 1969. The full document is reprinted in G. Hutchinson, *Edward Heath: A Personal and Political Biography* (Harlow,1970), Appendix I, p.207.

Commonwealth and Overseas Council (CCOC) explicitly welcomed the suggestion that Triffin propounded. [67] The CCOC owed its origin to the Conservative Overseas Bureau established as 'an extra-parliamentary organization' in 1949 (later the Conservative Commonwealth Council). It intended to supplement the effect of the party's ordinary activities in making its principles and policies known in both Commonwealth and foreign countries' as 'a right-wing counterpart to the Fabian Colonial Bureau'.[68] What the CCOC took up as one of the major long-term problems raised by EEC membership was 'that of merging Sterling's twin roles as a Reserve and Trading Currency with that of a Common European Currency'.[69] These twin roles evolved as a result of the interplay of historical and economic factors, and the CCOC, therefore, derived some satisfaction from the perception that this interplay finally led the members of the Community, except France, to take over sterling's mantle as a reserve currency.[70] For the CCOC, indeed, '[t]he gradual establishment of a European Fund for monetary co-operation would…be a useful step': British membership, it was hoped, would encourage the twin roles to be 'gradually taken over by the currencies of Member States as a whole – or by a single Community currency, if ever established'.[71]

IV

The next thing to be explored is how the UK Treasury and the Bank of England addressed the Werner plan in a more technical sense. In August 1970, just a few months after Heath was appointed prime minister, the Treasury and the Bank submitted to the Prime Minister a paper titled 'Proposals regarding United Kingdom participation in a European monetary system'.[72] Although this paper was drafted before the release of the Werner Report in October

[67] The CCOC was a study group on Commonwealth affairs of the Conservative Party. Originally the Conservative Commonwealth Council (CCC) formed in 1953, it changed its name to the CCOC in 1966. In 1984 it was reconstituted as the Conservative Foreign and Commonwealth Council (CFCC).

[68] P. Murphy, *Party Politics and Decolonization: the Conservative Party and British Colonial Policy in Tropical Africa*, *1951–1964* (Oxford, 1995), p.150.

[69] CCOC, 'CCOC Annual Conference 1970: Implications of Joining the European Economic Community: Monetary & Fiscal', a memorandum by David Bagnell, 9 February 1970, Churchill College Archives, BARN 6/7, p.3.

[70] CCOC, 'Britain's Role in A Changed World: Policies which Britain should urge on her partners in the EEC if Britain becomes a member of the Community.' March 1971, Churchill College Archives, BARN 6/9, p.6.

[71] Ibid.

[72] TNA PREM15/053, 'Proposals regarding United Kingdom Participation in a European Monetary System', August 1970.

1970, it contained far-reaching proposals on the assumption that the EEC would aspire to EMU (European Monetary Union). In this report, there are three points worthy of attention.

Firstly, the report started with a gloomy view of Britain's external position: Britain's net official assets (total 'owned' reserves including IMF drawing rights less external short term debt) had deteriorated to the point of illiquidity, with its figures changing from £2,183 million in September 1964 to -£338 million in March 1970.[73] Admittedly, the 1968 Basle Agreement provided some support against the withdrawal of sterling balances. But, in advance of the review of the agreement in 1971, the monetary authorities held the grim view that 'it is unlikely that the creditors would be prepared to renew the facilities without some considerable further restriction on our freedom of action'.[74] What confirmed this view was the fact that the agreement bred a sense of resentment amongst the governments of the creditor countries, especially Continental governments. Whilst the IMF failed to exert any effective influence on United Kingdom policies during the sterling crisis of the mid 1960s, 'Governments in the creditor countries were cajoled by the fear of the consequences of not doing so to persuade their Central Banks to provide credit facilities considerably in excess of banking prudence, custom and responsible money management'.[75] UK officials braced themselves for the future negotiations that would 'need to be accompanied by definitive indications of improving domestic monetary and economic control in the United Kingdom'.[76]

Secondly, it dawned on the UK's leading officials that EEC monetary authorities felt a profound antipathy towards the US and the IMF. As they saw it, '… failure [of the IMF] to exert on United Kingdom policies during the sterling crisis of 1964-68 and equal failure to exert any influence to contain the continuing United States balance of payments deficit or devise any countervailing policies has confirmed the worst beliefs of many Europeans'.[77] Europeans tended to 'find in the IMF an Anglo-American tool to implement the more inflationary elements of Keynesian philosophy at the cost of abandoning honest currencies'.[78] European resentment towards Anglo-American arbitrariness was part of the reasons why the Community was inspired to look for a European 'monetary personality'.[79] On these lines, UK officials became poised to ride the whirlwind of the EEC's aspirations for 'a European monetary personality'. The staff

[73] Ibid., p.1.
[74] Ibid.p.2
[75] Ibid., p.5.
[76] Ibid.
[77] Ibid.
[78] Ibid.
[79] TNA PREM 15/053, 'Paper on ''Proposals regarding United Kingdom Participation in a European Monetary System", a memorandum by Ryrie, 23 October 1970, p.2.

paper on 'Proposals regarding United Kingdom participation in a European monetary system', made by the Treasury and the Bank of England, includes a crucial paragraph which suggests a delicate change in Britain's attitudes towards Anglo-American financial — sterling-dollar diplomacy:

> …during the 1950s and 60s we have consistently connived with the United States over IMF policy in the quite proper belief that the $ and the £ as reserve currencies had common interests which overrode all other consideration… the relative changes in this respect as between $ and £ certainly give very little justification for such an approach at the present time or for the future. *On the contrary in our present position the advantage lies in throwing in our weight towards the creation of a European Monetary System using our diplomatic skills in a manner to re-establish our independence and influence in international monetary affairs.*[80] (My italics)

Thirdly, in a more practical sense, what was Britain attempting to gain by engaging with a vision of European Monetary Union? As Ryrie mentioned, Britain pinned its hopes on the vision in the light of a long-term solution to the sterling balances: a European Monetary Council, if established, would 'take over the U.K.'s official short-term debts in exchange for a long-term claim on the U.K. repayable over 30 or 40 years'.[81] This was an attempt to transform the sterling balances into long-term debts. In a more historical sense, Britain saw the solution to the sterling balances as a restoration of the post-war North American Loans; the United Kingdom short-term debts should be 'brushed under the carpet for future generations to deal with as was contrived with the post-war North American Loans now finally due in AD 2005…'.[82] This was not far out of line with Heath's approach to sterling, since in a lecture at Harvard in 1967 he argued that the aspect of sterling as a reserve currency should be settled satisfactorily at an early stage of British membership of the Community.[83] As soon as the reins of government had been handed to Heath, the Treasury and the Bank of England aimed to take an early opportunity to discuss the sterling problem with creditor nations in 'the most efficacious manner in which Great Britain's short term official debts should be honoured'.[84] A concatenation of events from the late 1960s indeed encouraged some of the leading officials and

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80 TNA PREM 15/053, 'Proposals regarding United Kingdom Participation in a European Monetary System', pp.5-6.
81 TNA PREM 15/053, Ryrie, p.1, See also 'Proposals regarding United Kingdom Participation in a European Monetary System', p.10.
82 TNA PREM 15/053, 'Proposals regarding United Kingdom Participation in a European Monetary System', p.2.
83 Heath, *Old World, New Horizons* (*The Godkin Lectures)*, p.53.
84 TNA PREM 15/053, 'Proposals regarding United Kingdom Participation in a European Monetary System', p.10

the Conservatives to envisage a way for Britain to extricate itself honourably from financial default by taking advantage of joining the Common Market. What they envisaged was that 'we should regain our own sovereignty by taking part in our own surveillance' under the EMC (European Monetary Council),[85] 'on which the United Kingdom would have a seat amongst the creditors supported in the institution by some British staff, rather than it be exercised by the creditors en bloc with the United Kingdom in the dock of the bankruptcy court'.[86]

V

Heath decided to enter Europe. In monetary terms it meant that he decided to 'play our full part in the progress towards economic and monetary union'.[87] Britain embarked on EMU, carrying the sterling balances on its back. This perforce prompted reconsideration of Britain's relevance to EMU. The sterling crisis of the mid 1960s greatly manifested an inextricable interweaving of the sterling balances and sterling's vulnerability. The 1967 devaluation indeed 'gave a shock to the sterling system which aggravated the problem of the sterling balances'.[88] For Heath, '[i]n effect, a European solution had then to be found for this problem', [89] but in the negotiations for EEC membership 'no subject was more problematic than sterling'. [90]

France keenly raised the issue of the sterling balances and demanded the 'progressive reduction' of the balances during the transitional period.[91] Behind this was a crucial fact that the sterling balances of the OSA had increased between end-September 1968 and end-September 1970 by more than £800 million.[92] This annoyed the French, who had thought of the 1968 Basle Agreement as leading to an orderly run-down of the sterling balances, whilst avoiding a precipitate run-down.[93] The French attitude thus began with disdain for sterling's privileged position – 'the "Privilege" argument': 'sterling's international role confers a

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85 TNA PREM 15/053, Ryrie, p.2.

86 TNA PREM 15/053, 'Proposals regarding United Kingdom Participation in a European Monetary System', p.10

87 E.Heath, *The Course of My Life My Autobiography* (London,1998), p.375.

88 Heath, 'Realism in British Foreign Policy', p.207

89 Ibid.

90 Heath, *The Course of My Life*, p.374.

91 BOE 8A261/5, 'Discussions with the EEC on Economic and Financial Questions',a memorandum by HM Treasury, 25 March 1971, p.3. On 30 March 1971, Giscard d'Estaing (Minster of the Economy and Finance) made a statement on Britain's application to join the EEC. In this statement, he suggested that: 'it would be at the very least be necessary…to undertake appropriate steps to reduce progressively the volume of reserves held in sterling…', BOE 8A261/5, 'Giscard's Statement on 30th March, p.4.

92 BOE 8A261/5 'Giscard's statement on 30th March', p.5.

93 TNA T295/799, 'French Views on Sterling', 11 December 1970, p.4.

privilege on the UK, providing freedom from balance of payments restraints and in particular the ability to run up balances in order to finance overseas investment'. [94] They regarded sterling's privileged position as being contradictory to the Common Market: there is a contradiction between membership of the EEC and managing an international currency.[95] The French position stood out from the other members, which were 'all sceptical of the value of efforts to scale down the international role of sterling deliberately because of the problem about what asset would replace sterling balances'.[96] 'The "Privilege" argument', on the other hand, was linked to France's second point: 'the "Burden" argument' that 'the sterling balances represent a constraint on the UK's economic growth'.[97] The privilege, enabling Britain to finance long-term investment, rather amplified its balance of payment difficulties and thus compelled Britain to adopt the measures designed to restrict domestic demands–'stop' and 'go' policies. More fundamentally, with a decline in confidence about sterling, France came to treat the sterling balances as a 'debt', not 'a sight liability.'[98] With long-term capital exports necessitating the block of short-term debts, France's criticism pointed to Britain's illiquid position: the basic imbalance. Its case for the progressive reduction of the sterling balances was closely intertwined with its case for more control of long-term capital flows, and this was tantamount to a demand for the dismantlement of the sterling system which, as a banking group, had enabled Britain's long lending and short borrowing to match the OSA's long borrowing and short lending. This point, however, was not fully shared by other members, which sidestepped the French argument by claiming that Britain's balance of payment difficulties originated in the current account, rather than in the volume of long-term capital exports.[99] They emphasized that Britain's capital export could contribute to an improvement in its current account not only by leading to exports of capital goods but by generating investment incomes.[100]

In spite of a seemingly aggressive posture taken by the French, a report from the British embassy in Paris conveyed that there lay an attitude of 'relatively sweet reasonableness'

[94] TNA T295/799, 'French Views of the Sterling Area and the Problem of its Inter-relationship with the EEC', 12 January 1971, pp.1-2.
[95] BOE 8A/261/5, 'Discussions with the EEC on Economic and Financial Questions', a memorandum by HM Treasury, 25 March 1971, pp.1-2.
[96] BOE 8A261/6, 'Sterling and the EEC', Ryrie's memorandum, 21 April 1971.
[97] TNA T295/799, 'French Views of the Sterling Area and the Problem of its Inter-relationship with the EEC', 12 January 1971, p.3.
[98] TNA T295/800. 'Commentary on Barre, The Basle Agreement and the Sterling Balances', 7 April 1971.p.2.
[99] TNA T295/868, 'The Problem of the Pound in the Context of the Financial and Monetary Problems Liable to be Posed in the Country of the U.K.'s Membership', 21 May 1971, p.2.
[100] Ibid., p.3.

in the back of French minds.[101] The French wanted to avoid the situation in which their argument would be 'interpreted in some quarters as building up to a third veto'. [102] There was a subtle shift from Gaullism; President Pompidou, who was concerned about the eventual reactions of the United States to the monetary union, did not want to precipitate a monetary war against the dollar:

> Pompidou's thinking … seems to be that if sterling were brought into the E.E.C. without an assurance that its use as a reserve currency would be progressively eliminated, this would import into the embryonic monetary union a reserve role of which it could not then easily rid itself. This, in his view, would provoke the kind of conflict with the United States which could only have adverse consequences.[103]

The Werner plan indeed wished for the creation of a common European currency. France also accepted the idea that 'in the longer term a European currency, once brought into being, might tend to acquire a reserve role over the years', which could possibly compete with the dollar. [104] Pompidou, however, saw a considerable difference between envisaging Werner philosophy and 'embracing now the idea of a European reserve currency arising from the existence of the reserve role of sterling.' [105] He put aside the vision of creating a European Bank by the marriage between European reserves and British liabilities, which had been featured by Triffin and Monnet.

In return for France's 'relatively sweet reasonableness', Britain was encouraged to propound a more explicit statement of its intentions. In late May 1971 Heath told Pompidou at the summit meeting that 'Britain could *unreservedly* subscribe to the programme of progress towards economic and monetary union set out in The Hague communiqué of December 1969'(my italic),[106] and in early June Rippon, the Chancellor of the Duchy of Lancaster, made a statement to the EEC on sterling: 'We are prepared to envisage an orderly and gradual run-down of official sterling balances after our accession', and '[w]e shall be ready to discuss after our entry into the Communities what measure might be appropriate to achieve a progressive alignment of the external characteristics and practices in relation to sterling with those of the other currencies in the Community in the context of progress towards economic and monetary union…' ; and added that ' we are confident that official sterling can be handled in a

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[101] TNA T295/799, 'French Views on Sterling', 11 December 1970, p2.
[102] Ibid.
[103] Ibid., p3.
[104] Ibid.
[105] Ibid.
[106] TNA FCO 30/1154, ' Draft letter to Herr Brandt, Signor Colombo, Belgian Prime Minister, Dutch Prime Minister, Luxembourg Prime Minister', 24 May 1971, p.1.

way which will enable us to take our full part in that progress'. [107] '[T]he external characteristics and practices in relation to sterling' were nothing less than the sterling system. Its 'progressive alignment', simply interpreted, could be viewed as an effort at a progressive reduction of the sterling balances within the European framework. The statement, therefore, as Heath confessed, 'aroused great suspicion…that a secret deal had been struck at my summit with Pompidou'. [108] In order to disclaim it, Heath later made it clear in the House of Commons that: 'we have given no undertakings as to how fast or by what means these developments [towards EMU] could or should be brought about'.[109]

The statement offered by Rippon indeed was hedged in diplomatic locution. Britain was 'prepared to envisage an orderly and gradual rundown of official sterling balances,'[110] but by no means *commit itself* to it. For Britain, its implication was a reaffirmation of stabilization policy, not a commitment to diversification policy for the balances. It was 'quite out of the question for the EEC to have proposed, or the UK to have accepted, precise arrangements for reduction of sterling balances', particularly because most of the sterling area countries agreed to a two-year extension of the 1968 Basle Agreement which was due to expire in September 1971.[111] The pith was that Britain did not aim to compel any holder of the sterling balances to reduce their holding and the whole question of running down the sterling balances, involving the sterling holders, needed to be discussed internationally as 'a part of the much wider issue of reforming the international monetary system so as to phase out the use of national currencies as reserve assets'.[112] This was almost in line with the wishes of the EEC which, in fear of massive conversions of the sterling balances, agreed that the solution of the balances 'should in principle be found in a framework different from that of the Community'.[113] Britain indeed embarked on EMU, 'living with the [sterling] balances'.[114] The essential tone behind 'an orderly and gradual run-down', it could be construed, was a nuanced rendering of diplomatic considerations particularly for the US, with the Europeans' implicit intentions not to dethrone the dollar as the key currency by envisaging EMU. It was also curiously mixed with a plea for the US's persevering effort towards the survival of a debilitated Bretton Woods, with the exchange crisis

[107] TNA T312/2999, 'Exchange of letters on monetary question'. 22 January 1972.
[108] Heath, *The Course of My Life*, p.375.
[109] Ibid. See also Cmnd 4715, *The United Kingdom and the European Communities*, July 1971, p.33
[110] Cmnd 4715, *The United Kingdom and the European Communities*, July 1971, p.32
[111] BOE 8A261/8,' Sterling and the international monetary situation', brief by HM Treasury, October 1971, p.3.
[112] Ibid.
[113] TNA T295/868, 'The Problem of the Pound in the Context of the Financial and Monetary Problems Liable to be Posed in the Country of the U.K.'s Membership', 21 May 1971, p.7.
[114] TNA T295/799, 'Paper on Sterling etc, Passage for Inclusion in AED(F) on Boegner's Statement of 18 March, Sterling Area and Sterling Balances', 24 March 1971,p.4.

manifesting massive flows from the dollar to the DM and then culminating in a unilateral floating of the DM in May 1971. What occurred a couple of months later, however, was the kind of *coup d'état* by the US: President Nixon toppled gold in the international monetary system by suspending the convertibility of the dollar into gold. As the collapse of Bretton Woods increased volatility in the markets, Britain became deluged with external disturbances.

VI

The gradual crumbling away of the international monetary system in the 1960s failed to revamp the system, thus inexorably generating 'plenty of emotional complexity' amongst three countries: France, Germany and Britain.[115] The dollar, admittedly, entered into the phase of decline. Nevertheless, France's aggressive posture towards the US's exorbitant privilege turned out to be a failure, with the "gold rush" in 1968 failing to oust the dollar from its key currency status. This caused a change in France's attitude towards the international monetary reform[116] and its relationship with the US. Pompidou suggested to the British ambassador in 1970.

> The last thing that he [Pompidou] wanted to have was a monetary war with the United States. We needed the Americans for our defence and we did not want to create any more difficulties with them than was inevitable anyhow with the Market being enlarged.[117]

Thus, what Pompidou did not like was 'the reserve role of sterling'. [118] The circumstances at the turn of the 1970s gave France more grounds than ever for wishing to pursue a regional approach by forging a secondary monetary pole. But, particularly for France, this did not entail the marriage between sterling as a reserve currency and a "functional" union ('falling short of actual federation').[119] On the other hand,

> Although the Germans are more committed to the European ideal than the French, they have hitherto been more cautious in their approach to monetary union.[120] … Germany's position is…schizophrenic. She does not want to seem anti-European or anti-French and

[115] D. Marsh, *The Euro: The Politics of the New Global Currency*(New Haven and London, 2009) , p.53

[116] Pompidou, who had obstinately held that 'dollar equilibrium and convertibility should precede reform', was gradually brought around to the view that 'dollar convertibility and reform must go forward together'. See, TNA T 312/2958, 'Visit of the President of France to the United Kingdom, 18 and 19 March 1972, Monetary Questions: Brief by the Treasury', 13 March 1972, p.2.

[117] TNA T328/654, 'Extract from the record of the Ambassador's talk with President Pompidou on 20 November 1970

[118] Ibid

[119] TNA 328/654, 'Ministerial committee on the approach to Europe', November 1970, p.9

[120] Ibid, p.14

> does set considerable store on the continued process of political unification. But equally she does not want to sign a blank cheque for the benefit of her partners.[121]

In spite of post-war Germany's economic miracle, its 'schizophrenia' by no means made the country free of the foibles that had rendered it obsessive about inflation, thus driving it to float the D-mark. With its fear of inflationary pressures being greater than its fear of causing a recession, Germany used 'exchange rate policy as an instrument for control over the internal economy.[122] What the French wished was to nudge the Germans to 'sign a blank cheque', say, 'to put pressure on the Germans to think more about growth and less about price stability'.[123] In this strategic context, France needed Britain 'as a counterweight to Germany's growing strength'.[124]

Whilst the Germans were schizophrenic, the French were ambivalent towards monetary union. Pompidou indeed alleviated Gaullist-style 'anti-American crusade', and his references to avoiding monetary war with the US reflected awareness of German anxieties in the crusade.[125] But he did not dismiss 'the long-standing Gaullist objective of reducing American influence in Europe'.[126] 'The Community are unlikely to abandon their finalité politique of ultimate economic and monetary union',[127] though jammed with plot twists. The British recognized the political nature of the Werner Report, and, in spite of Pompidou's geopolitical concerns about EEC's embracing sterling as a reserve currency, they envisaged reconciling Britain's privileged position entailing sterling's reserve and trading roles with the Community's finalité politique :

> …the object [of the EMU plan] was to create a Europe that could stand up to the economic might of the US and thus command for itself a more powerful voice in world affairs… A major objective is to develop a role for European currencies with which to oppose the monetary dominance of the dollar….*And our interest would be served by the development of the role for European currencies as counterweight to the dollar*…We have the Commonwealth preference areas, E.F.T.A., the Sterling Area, and have given special considerations to preserving sterling's reserve and trading roles and the City's predominance in providing international and financial services. *For the U.K., joining the Common Market entails foregoing her privileged position implied by such arrangements and sharing it with the other members of the Community*[128] (My italics)

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[121] Ibid, p.15
[122] TNA, T 312/2943, 'The Deutsch Mark', a memorandum by British Embassy, Bonn, 3 June 1971, p.3.
[123] TNA 328/654, 'Ministerial committee on the approach to Europe', p.13
[124] D. Marsh, *The Euro*, p.53
[125] TNA 328/654, 'Ministerial committee on the approach to Europe', pp.14-5
[126] Ibid, p.12
[127] Ibid, p.31, emphasis in the original.
[128] BOE 5A/180/2, 'European Economic and Monetary Integration: The Werner Report in Perspective' , 2 Novermber 1970, pp.2-3, emphasis in the original.

The EEC's hope of achieving the creation of a secondary monetary pole rested on the possibility of 'the integration of sterling into a more unified European Currency bloc'.[129]A brief drafted jointly by the Treasury and the Foreign and Commonwealth Office at the Ministerial Committee on the Approach to Europe, thus, suggests:

> …membership of a "functional" union could make it easier to get our present relationship with the Sterling Area on to a more durable basis… we would negotiate a prolongation of the Basle facilities…in which our fellow members within the EEC would play a bigger role. To the extent that…the Community were seen to be underwriting our sterling obligations, confidence would increase and …the balances might well rise. *At a later stage, and in spite of evident French objections to the use of any European currency in a reserve role, a way might be found to convert the sterling balances within the framework of a European Reserve Fund...* (My italics)[130]

The main purpose of the brief was 'to draw Ministers' attention to the long-term possibilities of "integrating sterling" into a European monetary arrangement.' [131] This was not just 'a favourite theme of Mr Rippon's'[132], but it did really fit in with the feelings which Fforde and McMahon (Deputy Governor) at the Bank of England harboured:

> 'He[Fforde] …in the context of the EEC negotiations argued that there was a good case for preserving sterling as a reserve currency if Britain were to join the EEC… '.I [McMahon] think most people (at least in the Bank) would agree that it would be wrong to try really to "wind up" sterling's reserve role, let alone the vehicle currency role'.[133]

Indeed, there was a conflict amongst members within the EEC. For Britain, however, 'the conflicting motives and aims of the Six should give us an opportunity to influence the development of affairs to our advantage'.[134]

Britain finally failed to carve out a significant role for itself on the process to EMU. Part of the reason was that Britain hesitated to accommodate itself to the second stage of EMU which would embrace a launching of "the Europe" as 'a new proto-European currency' in parallel with national currencies.[135] "The Europe" would indeed be expected to perform 'as a kind of shadow numéraire' or 'functions similar to those of the Eurodollar', which would

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[129] TNA 328/654, 'Ministerial committee on the approach to Europe', p.18
[130] Ibid,pp.30-1
[131] TNA 328/654, 'European Economic Community: Werner Report on an economic and monetary union'. A memorandum by P.E. Middleton to Wass, 9th November 1970, p.1
[132] Ibid.
[133] F.Capie,, *The Bank of England, 1950s to 1979*, pp.406-7.
[134] TNA T 328/654, 'Ministerial committee on the approach to Europe', p.32
[135] TNA T 355/281, 'Report of the Working Party on Economic and Monetary Union', a memorandum to Sir Douglas Allen dated 6 February 1973, p.3.

eventually pave the way for a diversification on the Euro-dollar market.[136] Britain,however, resisted it on the grounds that "the Europe" 'would become a vehicle for currency speculation and the possible defeat of exchange controls'[137]**.** Either way, Britain's diplomatic finesse did not pay off, and a European approach to sterling turned out to be an aborted attempt. Sterling thus ended its role as an international currency towards the mid-1970s. That was not just 'sterling's retreat as an international currency,'[138] but its retreat into a national currency. Britain made it 'with not a little regret'.[139] The way market forces established a fairly progressive decline was further away from the picture which had dominated the minds of McMahon, Fforde, and Rylie. This notwithstanding, there still remains the fact that a European approach to sterling was fanned into important political and economic interests of Britain at the turn of the 1970s, with the gradually fractured sterling-dollar diplomacy gearing Britain up for Europe's aspirations to an economic and monetary union. Amidst this muddling-through, Britain's hold of sterling as a reserve currency had by no means withered away. Its imperial inclinations had forged resistance to its inclusion into Europe, but its grain rendered the country rather poised for the federalizing impulse of Europe. More light with shadings and complications should be cast on Britain's strategy for managing the currency at the turn of the 1970s.

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[136] TNA T 355/281, ' Second Stage of Economic and Monetary Union' by Office of the United Kingdom Permanent Representative to the European Communities, dated 16 February 1973, p.5
[137] TNA T 355/281, 'Report on Economic and Monetary Union', p.37.
[138] Schenk, *The Decline of Sterling*, p.418
[139] Wass,D, *Decline to Fall:The Making of British Macro-Economic Policy and the 1976 IMF crisis*(2008), p.342