

The European Economic and Monetary Union: Werner's vision and the challenges of Bretton Woods

BOUCHAMA Fatima Zohra ¹, and Prof. Djelloul Laggoune ²

¹ PhD Candidate, University of Algiers 3, Algeria
Email: fatimazohrabouchama@yahoo.com

² University of Algiers 3, Algeria
Email: laggojel@yahoo.com

Abstract---The Economic and Monetary Union represents a unique example of integration; however, the path towards the Maastricht Treaty and the proclamation of the euro as a unified currency was not instantaneous. At the Hague Summit (1–2 December 1969), a decision was made to explore the possibilities of advancing towards an economic and monetary union, and a committee of experts was established at the request of the Council of the European Community, chaired by the Prime Minister and Minister of Finance of Luxembourg, Pierre Werner. In October 1970, the Werner Report was issued, setting forth a detailed plan for the transition to the union and providing a definition of the economic and monetary union. Nevertheless, the report coincided with a wave of international monetary crises, beginning with the suspension of the dollar's convertibility and the disintegration of the Bretton Woods system, followed by the Smithsonian Agreements, which ultimately led to the official suspension of the Werner Project.

Keywords---Werner Report, Bretton Woods System.

Introduction

The idea of a united Europe is not new. The most advanced attempt in this direction was the establishment of the Latin Monetary Union in 1865,¹ which brought together France, Greece, Italy, Belgium, and Switzerland. However, in the aftermath of the Second World War, following the experience of political repression and conflict, the concept of a unified Europe was revived to create a new system of peace, freedom, and prosperity. European thinkers such as Jean Monnet, Altiero Spinelli, Jacques Maritain, Luigi Einaudi, and Helmut von Moltke sought to determine what kind of

How to Cite:

Bouchama, F. Z., & Laggoune, D. (2025). The European Economic and Monetary Union: Werner's vision and the challenges of Bretton Woods. *The International Tax Journal*, 52(5), 1647–1659. Retrieved from <https://internationaltaxjournal.online/index.php/itj/article/view/175>

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2025

ITJ is open access and licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.

Submitted: 11 January 2025 | Revised: 01 April 2025 | Accepted: 04 September 2025

arrangements might bring an end to centuries of warfare.² They concluded that lasting European peace required the establishment of a political order stronger than the unchecked power of sovereign nation-states.

Robert Schuman's slogan "There will be no war between us; any war will be impossible among the nations of Europe" captured this conviction, which was to be realised through the principle of shared interest. In this sense, peace was to be achieved through integration: economic interdependence would reduce the likelihood of conflict, as had been the case with the Franco–German wars (1870–1945). Thus, in 1951, the European Coal and Steel Community was established, marking the first occasion on which six European states, France, Germany, Italy, Belgium, the Netherlands, and Luxembourg, surrendered part of their sovereignty. It was regarded as a model of functional integration, whereby cooperation begins in specific economic sectors and gradually leads to political union. This partnership increased trade among member states, removed customs barriers, and paved the way for the common market under the Treaty of Rome in 1957.

However, the Treaty of Rome made no explicit reference to any form of economic and monetary union, nor did it provide for a unified or common currency or for specific measures regarding currency conversion. All monetary relations were instead governed by the international monetary system established under the Bretton Woods Agreements of 1944, which relied on fixed exchange rates among the various national currencies. Nevertheless, certain efforts were undertaken to bring about change at the monetary level, manifested primarily through profound national monetary reforms. These reforms were essential in addressing hyperinflation and the economic collapse resulting from the war, and they laid the groundwork for subsequent European monetary cooperation, such as the European Monetary System (EMS) in 1979 and the euro in 1999.

This was exemplified in West Germany, where a sweeping and radical monetary reform led to the establishment of the Deutsche Mark.³ On 20 June 1948. The reform reduced the volume of circulating money by a factor of ten, unified both public and private debt, and created a new bank independent of public authorities to ensure currency stability.

The Bank Deutscher Länder, the forerunner of the Bundesbank, was established, after which the Federal Minister of Economics, Ludwig Erhard, adopted a liberal economic policy, including the abolition of price controls, thereby eliminating the black market. This resulted in the establishment of a social market economy characterised by high growth, low inflation, low unemployment, and a system of social protection, forming the foundation of the German economic miracle.

Parallel to the German experience, France undertook its own reforms, coinciding with the rise of Charles de Gaulle to power in 1958. At that time, France was experiencing financial instability, a political crisis, and an economy that was closed and highly protectionist, with a strong inwards orientation. To address internal and external budgetary imbalances, a committee led by Jacques Rueff⁴ was formed. Notably, Rueff was an opponent of Keynesian thought, which explains his emphasis on strict monetary policies and political freedom.

The Rueff Plan, which is orthodox and liberal in nature, focuses on four main pillars: competitiveness, anti-inflation measures, economic liberalisation, and investment stimulation. Implemented in late 1958, the plan led to balanced budgets, debt reduction, and the conversion of the franc into the new franc on 1 January 1960. These reforms, however, encountered resistance from socialists and industrialists due to spending cuts and subsidy reductions. Nonetheless, they were enforced, which enabled the budget to succeed in 1959 through a combination of tax increases and fiscal tightening.

**These reforms brought about profound changes that formed the foundation of the Economic and Monetary Union. The German experience in combating inflation through the Bundesbank earned it a

reputation for anti-inflationary discipline, whereas France's economic liberalisation paved the way for cooperation. Other countries, such as Belgium, the Netherlands, Luxembourg, Austria, and Norway, also sought to restore order in their monetary policies through financial and monetary reforms.

For example, Belgium, on behalf of its economic union with Luxembourg and the Netherlands, signed a bilateral monetary agreement in London in October 1943, which established a fixed exchange rate between the Belgian-Luxembourg franc and the Dutch guilder. This marked an initial step towards a stable customs union. A customs agreement was subsequently concluded in September 1944, creating a standard external tariff and abolishing internal duties, with gradual stages set for achieving complete economic union in Belgium. The reforms included the freezing of assets and currency reform in 1944, which prevented inflation.

All European states faced difficulties, yet each adopted different measures. Nonetheless, all sought to reduce the volume of money in circulation, freeze assets, issue new banknotes and coinage, and introduce new instruments such as reserve requirements, inflation rates, selective credit policies, and financial penalties.⁵ In response to increasingly challenging conditions.

Italy, however, pursued more lenient policies, refusing to introduce currency convertibility to avoid mass purchases of foreign currencies amid severe inflation, which reached thirty times the prewar value of the lira between 1945 and 1948.⁶ The country focused on combating inflation through measures such as improving the compulsory reserve mechanism, setting a ceiling on Treasury financing by the central bank (15 percent of budgetary expenditure),⁷ joining the Bretton Woods institutions in 1946, and gradually liberalising trade. Nevertheless, inflation persisted until the late 1940s. This divergence in reforms reflected political differences: liberal states such as Germany and France adopted strict reforms, whereas others preferred gradualism to avoid social unrest, a choice that contributed to imbalances within the European monetary system, such as the EMS.

It may thus be said that, despite their diversity, these reforms collectively contributed to the construction of monetary Europe. From the 1960s onwards, national authorities intensified efforts towards economic and monetary union. At the Hague Summit of December 1969, an official plan for such a union in Europe was announced, leading to the appointment of a committee of experts known as the Werner Committee. The Werner Report of 1970 set out a detailed roadmap for the transition to union. However, developments in the international monetary system, together with recessions and inflation during the 1970s, necessitated a reconsideration of the Werner Project in favour of more flexible measures better suited to international change.

The central problem of this study is as follows: How did the Werner report contribute to the development of economic thought on monetary integration in Europe, and to what extent did the collapse of the Bretton Woods system influence this process?

The Werner Report: A First Step towards an Economic and Monetary Union

1. The Hague Summit, 1–2 December 1969

This summit is regarded as the starting point of the Economic and Monetary Union, where the six leaders of the European Community (France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg) agreed to move forward with the integration project. The summit rested upon a tripartite framework: completion (the finalisation of the common market), enlargement (the admission of new members), and deepening (economic and monetary cooperation).

It was also a response to stagnation following De Gaulle's rejection of Britain's membership, and it resulted in major agreements, including the opening of negotiations with candidate states such as Britain, which transformed the Community from six to nine members in 1973. In addition, disputes over the Common Agricultural Policy were resolved through a compromise that enabled the adoption of financial regulations on agriculture, as requested by France, while also increasing the budgetary

powers of the European Parliament, a demand supported particularly by Italy and other parties. The six also reached a preliminary agreement on financial regulations concerning Community resources.⁸

The Hague Summit was regarded as a turning point in the history of the European Community. Following the Treaty of Rome of 1957, Europe pursued integration but faced significant challenges, notably, the monetary instability generated by the international Bretton Woods system. Owing to currency market instability, monetary considerations were revived through the Barre Report of February 1969, presented at the Hague Summit. This was the first official inclusion of the Economic and Monetary Union on the European agenda.

The Barre Plan functioned as preparatory work for examining the question of economic and monetary union. It emphasises consultation on medium-term economic policies, the coordination of short-term policies, and the establishment of a Community mechanism for the provision of automatic monetary support.

However, in the wake of the monetary turbulence of 1969, cooperation appeared both indispensable and nearly impossible. The first came the sterling crisis, followed by the French franc crisis, which broke years of stability and resulted in a devaluation of 11.2 percent, succeeded by a revaluation of the German mark by 9.29 percent. Further monetary disturbances and severe exchange-rate instability threaten the market balance. In addition, the role of the United States dollar and its central position within the Bretton Woods system heightened concern. The idea of strengthening the Community's external identity gained increasing prominence, and member states sought to prepare themselves as a European monetary entity in international relations.⁹ Thus, both internal and external challenges propelled European integration towards economic and monetary unions as a means of safeguarding the common market.

2. The Werner Report

At the Hague Summit of 1969, a committee was appointed under the chairmanship of Pierre Werner, the prime minister and minister of finance of Luxembourg, to examine steps towards monetary integration. The committee was composed of the chairpersons of the principal economic policy committees of the European Community:¹⁰

- Bernard Clappier of the French Treasury, chair of the Committee of Central Bank Governors;
- Hubert Ansiaux of the National Bank of Belgium, chair of the Short-Term Economic Policy Committee;
- Gerard Brouwers of the Dutch Ministry of Economic Affairs, responsible for the Medium-Term Economic Policy Committee;
- Johann Baptist Schöllhorn of the German Ministry of Economics, together with his deputy Hans Tietmeyer, representing the Budgetary Policy Committee;
- Gaetano Stamatì of the Italian Ministry of Finance, along with Ugo Mosca, which represents the European Commission.

The inclusion of the chairpersons of economic policy committees and the governors of national central banks reflected an effort to achieve comprehensive and balanced representation of national policies and their coordination at the European level. Moreover, the appointment of Werner as chair holding the positions of head of government and finance minister simultaneously emerged as a political factor that reinforced the credibility and stature of the committee, combining executive, political, and financial authority. This underscores the seriousness of the commitment to integration.

The report, issued in October 1970, represented a step towards an economic and monetary union. It envisaged a gradual union in three stages between 1971 and 1980, emphasising the need for balanced progress between economic coordination and monetary constraints while warning that monetary union without a strong economic foundation could result in disequilibria, as later illustrated by the euro crisis.

The Werner Report thus offered a vision of economic and monetary union in which goods, services, people, and capital could circulate freely within a unified area, free from competitive distortions and without generating structural or regional imbalances.¹¹

This reflected a liberal economic vision inspired by the Common Market, in which the union aimed to promote efficiency and growth through the removal of barriers. The union was conceived not only as an economic mechanism but also as an instrument to prevent regional imbalances, requiring structural and regional policies at the Union level to compensate for weaker states. In this sense, it went beyond the common market toward a union necessitating the transfer of competences, which is consistent with the theory of optimal currency areas and stresses the need for compensatory mechanisms to absorb asymmetric shocks.

The report also defined a monetary union.¹² Within its scope: the complete and irreversible convertibility of currencies, the elimination of exchange-rate margins, the irrevocable fixing of rates, and the full liberalisation of capital movements. This could be accompanied either by the preservation of national currencies with supporting mechanisms or by the creation of a Community currency. However, the report favoured the idea of a single currency, underlining the project's irreversibility. Its full implementation was prevented by external pressures, including the position of the United States and France's withdrawal in 1971, which reflected tensions between the federalist vision advocating the transfer of national competences to the Community level and the intergovernmental vision, which preferred coordination without loss of sovereignty. Nevertheless, the Werner Report was the first initiative to chart the roadmap towards the euro in 1999.

The report also recommended the establishment of a European Central Bank and a European organisation of central banks, modelled on the United States Federal Reserve System, to manage the principal elements of domestic monetary policy and exchange-rate policy vis-à-vis third countries. However, it did not explicitly specify the institutional framework required and remained vague regarding the manner of its creation and its relationship with political authorities.¹³

With respect to the Werner Report, the union was conceived not merely as a monetary union but also as encompassing capital liberalisation, exchange-rate stabilisation, and the adoption of a single currency. In this respect, it went beyond the Delors Report of 1989, for example, in its explicit call for the creation of an independent economic decision-making centre subject to the European Parliament, together with a system of central banks founded on the very principle upon which the European Central Bank was later established. More ambitiously, Werner sought to link economic union with political union: according to spillover theory, economic integration inevitably leads to political integration.

Nevertheless, the report was criticised for weaknesses in four respects: the absence of an internal driving force, institutional ambiguity, insufficient constraints on national policies, and a political conception inclined towards Keynesianism. These shortcomings influenced the Delors Report, which placed greater emphasis on the monetary dimension.

The Werner Report was grounded in two principal principles: first, the gradual realisation of economic and monetary union, echoing Monnet's conviction that European unity could be achieved only step by step; second, the parallelism between economic convergence and the transfer of competences to the supranational level.¹⁴

The report reflected the principle of parallelism between economic convergence and the transfer of competences to the supranational level, a core concept in integration theories such as those developed by Béla Balassa. Without such parallelism, integration failed, as occurred in the 1970s, owing to global

monetary crises such as the collapse of Bretton Woods in 1971 and the oil shock, which led to the suspension of the report's implementation.

The report proposed a gradual plan in three stages. The first stage, lasting three years, included key elements such as strengthening consultation and policy coordination, liberalising capital movements within the Community, taking steps towards an integrated capital market, narrowing exchange-rate fluctuations, and establishing a monetary cooperation fund. The second stage focused on reinforcing the measures taken during the first stage across several fronts and under stricter conditions.¹⁵ The report also suggested the creation of a European Monetary Cooperation Fund, although it left open whether this would occur in the first or second stage. The third stage envisaged the establishment of a complete economic and monetary union. However, this plan was only partially realised, as crises in 1971 and 1973 prevented its full implementation.

Notably, the report's definition of monetary union largely reflected the Bretton Woods perspective, which was a European concern, insofar as it assumed a fixed framework for narrowing exchange rate fluctuations. This ambiguity created difficulties in implementation, compounded by divergent inflation rates among European states, which in turn led to instability within the "snake" mechanism. One may argue that this uncertainty inherent in the Bretton Woods system was a principal driver of European monetary integration. However, the Werner Report assumed the persistence of fixed exchange rates and did not envisage the system's collapse until President Nixon's 1971 declaration undermined this assumption. Consequently, the Werner project was formally suspended in 1974.

Economic and Monetary Union and the Collapse of the Bretton Woods System

During the 1930s, the world experienced extraordinary instability: international exchange rates became highly volatile, whereas states resorted to currency devaluations and restrictions on international trade. This led to a contraction of global trade by half. As a result, the need arose for the establishment of a monetary system that could serve as the foundation of postwar international economic relations. Proposals and visions for a new international monetary order were advanced, most notably by John Maynard Keynes and Harry Dexter White.

Keynes's proposals were grounded in the principle that the monetary system should ensure noninterference in the domestic policies of states, except where such policies had significant repercussions for international economic relations. He also stressed that these relations must confer equal advantages upon all countries and that the system should serve the general interest of all participants. In his project, Keynes argued that the management and regulation of the new system required the creation of a centralised global institution, with each member state holding a quota that would determine its responsibility in managing the institution's affairs. Keynes envisaged this institution as an International Clearing Union, performing functions analogous to those of a central bank within the domestic monetary system.¹⁶

What distinguished Keynes's project was his stance on the role of gold in the new system. He argued that the postwar world would require volumes of currency and international reserves far exceeding the global stock of gold and that reliance on gold alone would be inadequate for the stability of the system. In contrast, Harry White's project did not seek to establish an international monetary authority to replace national monetary authorities; instead, it envisaged the possibility of cooperation among them. The essence of his proposal is that the new international monetary system should aim to stabilise exchange rates and combat all forms of restrictions on external payments that limit free trade and the free movement of capital.

He proposed the creation of an international fund to stabilise the value of member states' currencies. In addition, he suggested that the unit of international account should be the *Unitas*, whose value would be

linked to a weight of gold. Member states would be required to define the value of their currencies in terms of either gold or the units and would not be permitted to alter this value without the approval of four-fifths of the votes of member states within the Fund.¹⁷ Ultimately, the American project was adopted.

The Bretton Woods System

On 20 July 1944, a series of agreements were signed at Bretton Woods, where representatives of the United States and the United Kingdom, together with delegates from forty-two other countries, convened and established a gold exchange system. Under this arrangement, the United States dollar assumed a central role in maintaining stability, as it was made convertible into gold at a fixed rate of thirty-five dollars per ounce, without limits or restrictions. All other currencies were pegged to the dollar.

The defining characteristics of this system were that national currencies were tied to the dollar and thereby indirectly tied to gold and that each country was obliged to intervene in the foreign exchange market to maintain the exchange rate within a margin of 1 percent above or below parity against the dollar. Countries could finance temporary deficits in their balances of payments by drawing on their international reserves or by borrowing from the International Monetary Fund. In cases of structural disequilibria, however, a country was permitted to alter the nominal value of its currency by up to 10 percent without requiring prior approval from the Fund.¹⁸

This system enables states to use their dollar reserves to purchase their own currency when its value depreciates by more than 1 percent below parity or to intervene by selling their currency and buying dollars when its value is appreciated. In addition, restrictions were imposed on short-term capital movements to prevent their destabilising effects on the exchange-rate regime.

The member states of the European Community were principal participants in the Bretton Woods system of fixed but adjustable exchange rates, which provided the foundation for postwar monetary cooperation in Europe, and they remained committed to its rules. The system marked a departure from the interwar gold standard by permitting fixed exchange rates that were nonetheless adjustable in cases of fundamental disequilibria. It also authorises controls to limit international capital flows. Moreover, a new institution, the International Monetary Fund (IMF), was created to supervise national economic policies and provide balance-of-payments financing for countries in need. According to Roubini and Mihm (2010), one of the IMF's primary responsibilities was to act as an international lender of last resort for governments and central banks, a role later tested by the crises faced by many countries in the 1990s.¹⁹

The Fund functions as a credit union, permitting members to draw beyond their gold quotas to cover temporary current-account deficits,²⁰ although not for capital purposes or reconstruction. This principle, inspired by Keynes's plan, was intended to provide temporary relief without generating permanent debt, thereby contributing to postwar economic stability. However, the ambiguity surrounding the definition of "fundamental disequilibrium" introduced uncertainty into the approval process for adjustments.

The dollar emerged prominently in the 1950s, owing to American economic dominance and its possession of the bulk of global gold reserves. It became the principal international currency for invoicing, transactions, and official reserves, benefiting from open financial markets. The dollar served simultaneously as a unit of account, medium of exchange, and store of value. This evolution made the system increasingly dependent on the dollar, diverging from the original design, which had envisaged a multicurrency economic framework.

The system became fully operational in 1958, when European currencies regained convertibility, enabling international balances to be settled in dollars, and it remained effective for twelve years.

The Dollar Crisis and the End of Bretton Woods

The United States entered a period of inflation beginning in 1965, with rates rising from approximately 1 percent annually in the early 1960s to more than 14 percent by 1980. The Federal Reserve Chairperson William McChesney Martin had previously kept inflation low, placing a high priority on the balance of payments and on America's monetary gold stock.²¹ Since 1965, however, the Federal Reserve has adopted an expansionary policy to accommodate financial developments, which spread inflation worldwide through deficits in the American balance of payments, thereby destabilising the system.

The driving force behind these imbalances from 1965 onwards was the money-financed fiscal policy of the United States, aimed at funding the Vietnam War and supporting President Lyndon Johnson's "Great Society" programme. This resulted in fiscal deficits and monetary expansion, marking the onset of what came to be known as the Great Inflation.

The United States tied the dollar to gold in what later became known as the gold dollar standard, making the dollar the world's reserve currency in place of gold. However, in 1960, economist Robert Triffin²² identified a structural problem: using a national currency (the dollar) as a global reserve created a paradox. As the world economy has expanded, the demand for dollars as reserves has risen, eventually outstripping America's gold holdings. This would provoke a collective shift back to gold, thereby collapsing the system. Triffin recommended replacing the dollar as the reserve currency and favoured an international currency proposed earlier by Keynes in 1943, the *bancor*. Later, special drawing rights (SDRs) were created as a paper substitute for gold.

In contrast, Despres, Salant, Kindleberger (1966) and McKinnon (1969) argued that the United States functioned as the world's banker and that the system could endure as long as the United States maintained stable economic policies.

Milton Friedman, however, as early as 1953, predicted the collapse of the adjustable-peg system. He argued that it depended on capital controls. Moreover, the adjustment mechanism failed to operate effectively because of rigid wages and prices and the commitment to full employment under the Employment Act of 1945.²³ Friedman advocated freely floating exchange rates and fiscal and monetary policies guided by market rules and capital mobility. These principles were adopted in the 1970s and 1980s.

15 August 1971 marked a pivotal moment in the history of the twentieth-century international monetary system, comparable in significance to the end of the gold standard during the outbreak of the First World War. On that day, President Richard Nixon announced the suspension of the dollar's convertibility into gold, the very principle upon which the Bretton Woods system had rested. The demise of the gold-dollar standard was the consequence of persistent imbalances in the American balance of payments, alongside other factors, including the following:

- The anticipation of dollar devaluation led to short-term capital outflows from the United States.
- The abandonment by European and Japanese authorities of their commitment to intervene in foreign exchange markets in support of the dollar;
- The inadequacy of international liquidity. Special drawing rights (SDRs) were created to address this problem. However, they proved insufficient, as their issuance and allocation were not determined by the needs of member states but by each country's size and relative importance in international trade.

International liquidity was essential to finance temporary balance-of-payments deficits without resorting to restrictive or contractionary measures, thereby allowing the adjustment mechanism sufficient time to

restore equilibrium. A shortage of liquidity curtailed or obstructed international trade, whereas excessive liquidity generated global inflationary pressures.²⁴

With Nixon's announcement of the end of the dollar-gold convertibility, the search began for alternatives to regulate the monetary order. In December 1971, representatives of ten countries gathered at the Smithsonian Institution in Washington to address the new situation following the collapse of Bretton Woods. Among the most significant outcomes was the increase in the price of gold from thirty-five to thirty-eight US dollars per ounce, which meant a devaluation of the dollar by 7.89%, the third devaluation since 1792.

The End of Bretton Woods and the European Project of Economic and Monetary Union

With the introduction of floating exchange rates, the European Community was confronted with a new challenge. This collapse coincided with the publication of the Werner Report, considered the first step towards European economic and monetary union, aimed at achieving monetary and political unity in Europe. Under the pressure of exchange-market turmoil, the immediate European priority ceased to be the creation of a single currency; instead, it became the stabilisation of exchange rates. The member states of the European Economic Community recognised that floating threatened intra-European trade and standard policies, particularly after the completion of the customs union in 1968, and they sought to stabilise currencies.

The collapse of Bretton Woods was not merely a technical event. However, a revolution in the European monetary order brought an end to an entire era of relative stability upon which the Werner project had relied. It was not perceived as a true crisis but as a revelation of the urgent necessity for a more effective alternative to preserve the achievements of the Treaty of Rome. As Jean Monnet famously observed, "Europe will be built through crises and will be the sum of the solutions adopted for those crises." European integration was never a utopian project but rather a process driven by necessity and the imperative of standard solutions.

For example, the steel crisis led to the creation of the European Coal and Steel Community; the economic crisis and stagflation of the 1970s resulted in the establishment of a monetary union and the eventual introduction of the single currency in 1999; the sovereign debt crisis prompted the strengthening of financial stability mechanisms; and the refugee crisis gave rise to attempts at harmonising migration policies. According to the theory of functional integration, integration progresses gradually through responses to crises and practical challenges, with each crisis revealing institutional deficiencies that, in turn, drive further integration.

The reality is that this collapse had a direct impact on the Economic and Monetary Union, which was still in its infancy. The breakdown of Bretton Woods produced sharp exchange rate fluctuations, leaving European currencies exposed to severe volatility that threatened intra-European trade. It also undermined monetary control, as states could no longer rely on stability once it was provided by the system. Furthermore, the weakness of international coordination became evident as the monetary mechanisms administered by the Bretton Woods institutions collapsed.

As a direct response to the demise of Bretton Woods, on 10 April 1972, the governors of the European central banks signed the Basel Agreement, which marked the birth of the "currency snake." This arrangement allowed European currencies to fluctuate within narrow margins of 2.25 percent.²⁵ Although the mechanism ultimately failed, it nevertheless represented an important step towards European monetary coordination and paved the way for Maastricht and the proclamation of monetary union.

The Bretton Woods system influenced European decision-makers not only at the time but also during the sovereign debt crisis. James Harold argues that institutional design plays a decisive role in the

success of international monetary arrangements. In his view, the success of Bretton Woods lay not in its specific monetary provisions, which collapsed in the 1970s, but in the institutional framework that endured and adapted. This phenomenon, described in the academic literature as *path dependence*, suggests that successful institutions become models to be emulated.

The central idea is that Bretton Woods offered a model combining an international monetary system based on rules to guarantee trade stability with supervisory and executive institutions, the IMF, to enforce those rules and reduce moral hazard.²⁶ The European Community sought repeatedly to draw inspiration from this model. For example, in 1978, French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt proposed the creation of the European Monetary System with fixed but adjustable exchange rates. The agreement also stipulated the establishment of a European Monetary Fund within two years, although the Bundesbank opposed this. The idea resurfaced in the 1990s and even during the sovereign debt crisis but again met resistance because building the IMF's technical capacity in a European setting would require considerable time, and such an exercise would heighten moral hazard. Both arguments suggest that Europe could instead rely on the IMF without the need for a new institution. Ultimately, it was the concrete experience of the euro area crisis itself that drove the search for a regional institution.²⁷

Relations among the members of the Troika, the International Monetary Fund, the European Commission, and the European Central Bank became strained. During the euro crisis, the Troika revealed the challenges of multilevel governance, in which overlapping authorities lacked clearly defined responsibilities. James Harold described this as a crisis of institutional legitimacy.²⁸

Harold further contends that Europe must learn from the Bretton Woods model across four dimensions:

1. **Current-account imbalances.** These findings highlight the problem of asymmetric adjustment²⁹ In monetary systems, what political economy terms the institutional dilemma of economic hegemony? From the very inception of the international monetary system, Keynes proposed for Bretton Woods an ideal model of symmetrical adjustment. He called for the creation of an International Clearing Union in which both deficit and surplus countries would face equal pressure to adjust. This reflected a profound understanding of imbalances as systemic problems rather than as issues confined solely to deficit countries.

However, Keynes's proposal was rejected by the United States. In the European context, German trade surpluses became a constant source of controversy, as Germany's partners feared its dominance through persistent surpluses. Consequently, at every stage of integration from Werner to Maastricht, mechanisms were devised to contain them.

Notably, German surpluses regularly provoked institutional responses at the European level: in the late 1960s, they contributed to the Werner Plan; in the late 1970s, they were linked to the creation of the European Monetary System; in the late 1980s, they played a role in the Delors Plan and Maastricht; and in the 2000s, they led to the redesign of the Euro's institutional framework. One may therefore argue that surpluses have been a driver of European integration.

In contrast, the International Monetary Fund, despite its insightful analysis of global imbalances, failed in 2007 to strengthen surveillance of the exchange-rate system, owing to Chinese opposition and the onset of the financial crisis. This episode highlighted the power dynamics of global governance, whereby major surplus countries wield veto power over institutional reforms. China later described the decision as hasty and lacking consensus among members.³⁰ Global institutions, therefore, lose effectiveness when confronted with resistance from dominant economic powers. In Europe, however, the solution lies in the coordination of fiscal policies, which point to the essential requirement for resolution, namely, deep fiscal integration. However, this, at the time, demanded a level of sovereignty transfer that European states were unwilling to accept.

Moreover, institutional solutions require political support that technical expertise alone cannot provide. The problem of current-account imbalances highlights the limits of the present European model, which combines monetary unity with fiscal diversity, a model that may prove unsustainable.

2. **Debt sustainability.** The IMF's accumulated experience in debt management has shifted its focus from balance-of-payments stability to comprehensive financial sustainability. However, the automatic application of debt-reduction rules can exacerbate financial panic (*creditor runs*) and provoke creditor flight during periods of fiscal stress. This illustrates a broader transformation in the philosophy of financial governance from traditional models based on external coercion to approaches grounded in internal legitimacy and local ownership.
3. **Ownership and conditionality.** Beginning in the 1990s, the IMF moved towards the concept that governments and societies should embrace reform programmes as their own projects rather than as externally imposed dictates. This shift emerged from the failure of structural adjustment programmes in the 1980s and 1990s, which relied heavily on external conditionality.³¹ In the euro crisis, for example, the IMF and the Troika imposed reform programmes on countries such as Greece and Ireland. In Greece, the absence of ownership among society and policymakers made implementation difficult. It sparked widespread protests, whereas in Ireland, there was broader acceptance of the need for reform, and the programmes achieved relative success.

This evolution also marked the transition from narrow conditionality (focused on monetary and fiscal policies) to broad structural conditionality (privatisation, liberalisation, governance), a process often described as “mission creep.” This expansion, however, reduced compliance rates and revealed the need to reconsider the entire approach.³²

The principle of ownership recognises that reforms cannot succeed without deep political and social consensus. However, the very purpose of Europe's recourse to the IMF and the creation of the Troika during the debt crisis was to find an alternative to such domestic economic reform.³³ One may argue that the IMF was used as a tool to circumvent local democratic deficits. This stands in contrast to the Fund's own principle of ownership, raising the question of whether this comparison reveals a crisis of democratic legitimacy in economic governance, where policies lacking popular support are nevertheless deemed necessary for stability.

Within the Troika arrangements, the European Central Bank, an institution designed to be technical and nonpolitical, was compelled to make political decisions, effectively politicising the ECB.³⁴ This development represented a violation of the principle of central bank independence. From this, one may conclude that Europe's particularities and uniqueness necessitate institutional innovation tailored to its democratic challenges and the geopolitical complexities of the twenty-first century.

4. **Security linkages and leadership.** Like Bretton Woods combined security with economic stability in the aftermath of the Second World War, Europe faced new security challenges, including the war in Ukraine, the refugee crisis, and Brexit. According to Harold, these challenges suggest that Europe now finds itself in a leadership phase comparable to that assumed by the United States under the Bretton Woods system.

Conclusion

In conclusion, the evolution of European integration has passed through numerous stages to arrive at its current form, beginning with the Werner Report, which called for the establishment of an economic and monetary system and mapped out the road towards the European Union and the single currency, ultimately aiming at political union in accordance with the principle of spillover. The monetary union is

regarded as a deepening of the Common Market; accordingly, for both the Barre Report (1969) and the Werner Report (1970), the monetary union constituted the logical extension of economic union. The events experienced by Europe and the world during the 1970s, from the dollar's flotation in 1971 to the first and second oil shocks (1973–1976), produced stagflation, which led Europeans to suspend the Werner Project and to seek models that were more flexible and responsive to new circumstances. This stagflation also undermined Keynesianism and exposed the failure of the Phillips curve to account for prevailing conditions.

Although the Werner project was suspended, it became the foundation upon which the union was later built. Furthermore, the collapse of the Bretton Woods system compelled serious reconsideration of the need for a specifically European monetary order.

Bibliography:

- ¹ محمود فاروق حمد، الوحدة النقدية الأوروبية والبيورو: النشأة والتطور والآثار، العدد 61 (الكويت: سلسلة رسائل البنك الصناعي، 2000)، 13.
- ² Tommaso Padoa-Schioppa, *The Euro and Its Central Bank: Getting United after the Union* (Cambridge, MA: MIT Press, 2004), 26.
- ³ Charles Pengalon and Tomas Guggenheim, "Le problème de la réforme monétaire après la deuxième guerre mondiale, et la solution en Allemagne occidentale, en Autriche, en Belgique et aux Pays-Bas," *Revue économique* 17, no. 6 (1966): 1030.
- ⁴ Florian Strehaiano, *Le Plan de Redressement financier de 1958: entre remise en ordre et inflexion libérale* (Master's thesis, École d'affaires, spécialité administration publique, mai 2020), 11.
- ⁵ Léon H. Dupriez, *Les Réformes Monétaires en Belgique* (Brussels: Office international de Librairie, 1978), 15.
- ⁶ George Aligas Koufis, Konstantinos Gravas, and Lourent, *Asymmetries in Postwar Monetary Arrangements in Europe: From Bretton Woods to the Euro Area*, Working Paper no. 10 (Athens: Department of Economics, Athens University of Economics and Business, July 2023), 41.
- ⁷ *Ibid.*, 41.
- ⁸ Elena Danescu, "The Werner Report of 1970: A Blueprint for EMU in the EU?," paper presented at the panel *Architects of the Euro*, European Union Studies Association (EUSA), Miami, May 2017 (Luxembourg: University of Luxembourg), 6.
- ⁹ *Ibid.*, 2.
- ¹⁰ Ivo Maes, *A Tale of Two Treatises: The Werner and Delors Reports and the Birth of the Euro* (Brussels: Bruegel Essay and Lecture Series), 13.
- ¹¹ *Ibid.*, 16.
- ¹² *Ibid.*, 17.
- ¹³ David Howarth and Peter Loedel, *The European Central Bank: The New European Leviathan?* (Houndmills, Basingstoke: Palgrave Macmillan), 29.
- ¹⁴ Elena Danescu, "The Werner Report of 1970: A Blueprint for EMU in the EU?," 12.
- ¹⁵ Ivo Maes, *A Tale of Two Treatises: The Werner and Delors Reports*.
- ¹⁶ Michel Bialès, Rémi Leunion, et al., *Notions fondamentales d'économie* (Paris: Éditions Foucher, 1998), 254.
- ¹⁷ *Ibid.*, 255.
- ¹⁸ عابد سيد محمد، التجارة الدولية، قسم علوم الاقتصاد، كلية التجارة، جامعة الإسكندرية (الإسكندرية: مكتبة ومطبعة الإشعاع الفنية، 2001)، 430.
- ¹⁹ George Algos Koufis, Konstantion Gravas, and Laurent Jacque, *Asymmetries in Postwar Monetary Arrangements in Europe: From Bretton Woods to the Euro*, 44.

-
- ²⁰ Michael D. Bordo, *The Operation and Demise of the Bretton Woods System, 1958 to 1971*, NBER Working Paper no. 23189 (Cambridge, MA: National Bureau of Economic Research, February 2017), 10.
- ²¹ Ibid., 21.
- ²² Michael D. Bordo, *The Imbalance of the Bretton Woods System 1965 to 1973: US Inflation, the Elephant in the Room*, Economics Working Paper no. 18115 (Stanford, CA: Hoover Institution, Stanford University, 2 August 2018), 5.
- ²³ Ibid., 12.
- ²⁴ 438. عابد سيد محمد، مرجع سبق ذكره،
- ²⁵ David Howarth and Peter Loedel, *The European Central Bank: The New European Leviathan?*, 3.
- ²⁶ Harold James, “In Bretton Woods: What Modern Europe Can Learn from Bretton Woods,” in *Bretton Woods, Brussels, and Beyond: Redesigning the Institutions of Europe*, ed. Nauro F. Campos and Jan-Egbert Sturm (London: CEPR Press, VoxEU.org Book, 2018), 16.
- ²⁷ Ibid.
- ²⁸ Ibid., 19.
- ²⁹ Vijay Joshi and Robert Skidelsky, *Keynes, Global Imbalances, and International Monetary Reform* (Oxford: University of Warwick), 2.
- ³⁰ Bessma Momani, “China at the IMF: Enter the Dragon in the International Financial System,” in *Enter the Dragon: China in the International Financial System*, ed. Domenico Lombardi and Hongying Wang (London: Routledge, 2016), 268.
- ³¹ Sarah Babb and Ariel Bura, *Mission Creep, Mission Push and Discretion in Sociological Perspective: The Case of IMF Conditionality*, G-24 Discussion Paper Series (Boston College: G-24 Secretariat), 7.
- ³² Alexander E. Kentikelenis, Thomas H. Stubbs, and Lawrence P. King, “IMF Conditionality and Development Policy Space, 1985–2014,” *Review of International Political Economy* 23, no. 4 (2016): 550.
- ³³ Harold James, “What Modern Europe Can Learn from Bretton Woods,” 20.
- ³⁴ Ibid., 23.