

The snake

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The European currency snake was created by the Basle Agreement signed on 10 April 1972. Under that Agreement, the governors of the central banks reduced the margin within which the exchange rates of EEC currencies could fluctuate. While under the snake-in-the-tunnel system a currency could fluctuate 2.25 % on either side of the fixed parity, the snake system allowed a maximum drift of 2.25 % around the fixed parity. As a result, the margin was reduced by half what was agreed at the Smithsonian Institution in Washington on 18 December 1971. Intervention by the EEC's central banks was automatically triggered when the outer fluctuation limits were reached. The unit of account (UA), whose value was defined in relation to gold, replaced the dollar as the currency of account in the European Economic Community.

Thus was created the European currency snake, which was allowed to move in its tunnel by a maximum variation of 4.5 %. In the absence of genuine monetary union, the snake acted as a brace to provide a zone of relative stability against a backdrop of international monetary chaos.

The three future members of the EEC – the United Kingdom, Ireland and Denmark – were already in the tunnel and joined the snake system on 1 May 1972. However, they did not stay long, because their currencies came under speculative attack and they were unable to keep to the narrow margins imposed by the system. The pound sterling, the Irish punt and the Danish crown were then allowed to float. The pound sterling was even forced to leave the tunnel in June 1972.

Tensions between France and Germany resurfaced when Karl Schiller demanded that France continue to support the dollar. Already under heavy fire for his earlier proposal that all European currencies should float, the German Minister for Finance and Economic Affairs was criticised on this occasion to such an extent that he was forced to resign in July 1972.