# 'Storm clouds over the EMS', from La Libre Belgique (29-30 September 1979)

**Caption:** On 29–30 September 1979, six months after the introduction of the European Monetary System (EMS), the Conservative daily newspaper La Libre Belgique carries out an initial review of the EMS and considers its ability to tackle the crises afflicting the global economy.

**Source:** La Libre Belgique. 29-30.09.1979, n° 272/273; 96e année. Bruxelles: Édition de la Libre Belgique S.A. "Le SME face à la tempête", auteur:J.Z. , p. 1; 26.



**URL:**
http://www.cvce.eu/obj/storm_clouds_over_the_ems_from_la_libre_belgique_29_30_september_1979-en-f6fbb87e-a59c-40a8-b2fc-392b677bf22f.html

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## Storm clouds over the EMS

Has the European Monetary System (EMS) that has just celebrated six months' existence operated well so far? YES. Will it be strong enough to maintain exchange rate stability in Europe? NO.

When it was set up, the objective of the EMS was not just to limit exchange rate fluctuations, as was the case with the old 'snake', but also to achieve more orderly currency markets.

The system has, unquestionably, functioned well in that respect. The European Monetary Cooperation Fund has helped central banks with strong currencies to absorb speculative attacks. More importantly, the consultation process operated in the way provided for under the agreement. There have been no unilateral decisions, as was the case in the past. Last week's adjustment, in which the mark was revalued by 2 % and the Danish krone devalued by 3 %, took place in an orderly fashion. Clearly, even a minor decision should be taken promptly instead of letting the situation deteriorate.

A softly, softly approach may well be preferable to brute force, but it will not, of itself, ensure stability. The EMS faces both internal and external threats. There is no reason to believe that it will weather the storm now looming on the horizon for the world economy.

The negative impact of the recent rise in energy prices has not ended, and further increases seem to be on the way. These price rises lead to new and significant transfers of resources that benefit the oil-producing countries. The added levy on the output of industrialised countries will inevitably be painful. It is up to us to reduce the impact by saving energy and by developing domestic production.

Unfortunately, no significant measures are being taken here. Europe still does not have a common energy policy, and the United States has only a long-term plan that a politically weak President has to have adopted by a Congress that is increasingly aware of its own powers.

The high interest rate policy being pursued by the Federal Reserve System, driven by its new Chairman, Paul Volcker, is clearly not enough to shore up the dollar, because, as a result of inflation, the real interest rate is still low. The price rise threatens the entire world economy, including countries with strong currencies. Those countries, in supporting the dollar last year, accumulated new liquidity that now threatens price stability. Germany's and Japan's trade balances are not as brilliant as they once were because of currency adjustments over recent months and the rise in oil prices. They are not in the mood for displaying the slightest leniency towards more freewheeling countries, and justifiably so, since anarchy in the financial world can only harm economic activity.

If the industrialised nations' management of monetary affairs had been more orthodox, the oil- producing countries would have invested more in our industrial restructuring projects rather than buying gold or making very short-term dollar deposits. Therefore, the lack of an energy policy can only prolong the current mess. European countries do not react in the same way to global shocks, for both political and structural reasons. The European Monetary System has functioned relatively well, because inflation rates in different countries have tended to converge rather than diverge. The EMS would have been in greater trouble if different policies had been followed to counter the large oil price rises that we are now facing and for which there is no end in sight.

As far as our country is concerned, we must not harbour too many illusions. If the Belgian franc has continued to be stable against most currencies, apart from the German mark and the Danish krone, it has nevertheless dropped slightly against the accounting unit, which was driven upwards after the mark's revaluation. Speculation considerably depleted our currency reserves and increased our external debt. We shall not emerge totally unscathed, because it will take a long time for us to return to the position that existed before the latest speculative onslaught, if we ever get back there.

We have been given some breathing space. Will we make the most of it?

Whatever steps we might take in monetary, public finance or industrial restructuring terms, it will take several months or even three or four years before they take effect. It is, therefore, time to make a start and, above all, to demonstrate that we are determined to succeed. The ditherers have never won the confidence of the currency markets.

J. Z.