

'A European currency unit?', from Frankfurter Allgemeine Zeitung (11 August 1978)

Caption: On 11 August 1978, the German daily newspaper Frankfurter Allgemeine Zeitung sets out the various reactions of the Nine regarding the decision to introduce a new European Monetary System (EMS).

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. EICK, Jürgen; WELTER, Erich; FACK, Fritz Ullrich; DESCHAMPS, Bruno; FEST, Joachim; REIßMÜLLER, Johann Georg. 11.08.1978, n° 172. Frankfurt/Main: FAZ Verlag GmbH. "Eine europäische Währungseinheit ?", auteur:Stadlmann, Heinz , p. 1.

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A European currency unit?

by *Heinz Stadlmann*

The latest European currency plans, whose actual form is as yet unknown, have certainly got things moving. In the United States, the suspicion is growing that the plans simply conceal a deep mistrust of the American Administration's ability to put the country's economy — and with it the dollar — in order. Britain is making its participation dependent on a fundamental review of internal Community policy. The question arises in other Member States whether Britain is, once again, merely trying to put the brakes on what it sees as an uncomfortable development and making a new assessment of what British membership of the EC really means. London has already detected the emergence of a European nucleus under German and French leadership. Many in the Federal Republic believe that the German mark would be damaged under the new monetary system. Outside Germany, people are saying that the Germans are interested only in protecting their own currency.

The contradictory assessments are not least a consequence of surprise. Talk was still very vague on the subject of a new monetary association in early April at the Copenhagen Conference of EC Heads of Government, so no one believed that, just three months later, a plan with all the essential features in place would be on the table. No one could imagine that the Federal German Chancellor would completely change the line that he had followed hitherto, that there should be an alignment of the national economies before there could be any talk about a monetary association. Yet, suddenly, here was the Chancellor prepared to abandon this precondition. Now there are plans for a European monetary fund with common reserves to the order of some DM 100 thousand million, tightly defined exchange rates for the European currencies and a new European currency unit, the ecu. It soon became clear, though, that there is still considerable disagreement about this ambitious project. In the absence of precise proposals, speculation is rife.

The Federal Chancellor denies it — and his colleagues are at pains to counter the suspicions — but it is obvious that, at the start, there was uncertainty about American policy. Last autumn and winter, there had been serious assessments of what the President would and could do. The general impression has arisen that Washington was pursuing a dollar policy without any consideration for European interests. So, the desire emerged for self-protection against American policy. A European monetary association might be able to help iron out exchange-rate fluctuations against the dollar with all their negative effects on external trade, the economic situation and efforts to achieve stability.

It is true that a functioning European monetary system might also have advantages for the dollar, but the Americans fear that the Europeans' policy of coordinated exchange rates will harm their freedom of trade. They apparently believe that the system also holds a certain attraction and, in the long term, see the possibility of increased investment by the wealthy oil-producing countries in the 'European currency', which would be bound to have an unfavourable effect on the dollar. So, American suspicions are not unfounded, but, in Washington, the feeling is also growing that they only have themselves to blame for this development.

Of the European countries, it is primarily Britain that is trying to use the new move towards further integration as a lever. Callaghan's initial hesitation seems to have given way to the conviction that, this time, it would be better for Britain to be involved from the outset. The Franco-German handwriting on the monetary plans should certainly be complemented with a British contribution. London wants the system to be more strongly geared to its own requirements. Its main concerns are easy access to credit and a certain degree of flexibility in exchange rates, so that its weak reserves are protected. More extensive demands are hidden behind the nebulous term 'transfer of resources', which means nothing less than a sort of horizontal financial compensation to benefit the weaker countries of the Community. The British have recognised that, for the Germans, it is a question of protecting the mark. For that, they demand a price: more money for the EC Regional and Social Funds and less for the costly common agricultural policy, which, not without justification, is a thorn in the flesh to London. Not all the British demands find support from other countries, but there is definitely some sympathy. At all events, there is a lively autumn in store for the Community.

The predominantly negative reaction in the Federal Republic may probably be put down to the fact that the motives of the authors of the plan could not be really clearly expressed. Valéry Giscard d'Estaing needs an instrument to discipline his own economy and sees political advantages in the downward movement of the dollar. Helmut Schmidt wants to bring the mark out of the firing line and secure German exports within the Community, which account for half of the country's total exports. They are bound to suffer without more stable conditions in neighbouring countries. The scepticism also arises from the bad experiences of strong exchange rates and from the potential for inflation that a European Monetary Fund holds. Without the strict regulation of credit, the whole project might actually end in disaster.