

## 'Helmut Schmidt: Back to Europe', from Der Spiegel (25 September 1978)

**Caption:** On 25 September 1978, the German weekly magazine Der Spiegel considers the role of Franco-German cooperation in the establishment of the European Monetary System (EMS) that same year.

**Source:** Der Spiegel. Das deutsche Nachrichtenmagazin. Hrsg. Augstein, Rudolf ; Herausgeber Engel, Johannes K.; Böhme, Erich. 25.09.1978, Nr. 39; 32. Jg. Hamburg: Spiegel-Verlag. "Helmut Schmidt: Zurück zu Europa", p. 21-23.

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## Helmut Schmidt: Back to Europe

**Disappointed with the USA, Chancellor Schmidt is concentrating on new visions of a united and powerful Europe. The lead part must, as he recognises, be assumed by France, since the Germans, burdened with their past, must not adopt ‘too self-confident a stance’. But Schmidt sees himself in the director’s role.**

It was as though the twosome — tall and elegant on the one hand, squat and go-getting on the other — was conscientiously consigning to memory the dictionary of national economics. So they declined ‘currency basket’ and ‘settlement of balances’, and defined ‘intervention points’ and ‘parity grid’.

In truth, however, Valéry Giscard d’Estaing and Helmut Schmidt were revelling in history and dreaming of the future. The two core Europeans already met once the week before last in a city full of associations — in Aachen, home of Charlemagne — where they measured their seemingly arid sessions on the proposed artificial European currency, the ‘Ecu’, against that 1 100-year-old yardstick. Unfolding his historical perspective, Schmidt suggested: ‘We are creating something which will be of great political importance for the remainder of the century.’

The Chancellor is striving for something higher than exchange rates. The German crisis manager, looking for promotion to the rank of European statesman, is proposing a new attempt at European unification. What he is set on is the political leadership of the European continent, perhaps even of the Western hemisphere.

During his summer vacation by the Bramsee, the Chancellor had an opportunity to review the world situation and the contribution that he could make to it. His conclusions were bleak. The economic policies of the leading Western power, the USA, are as uninspiring as ever and, while Schmidt and Jimmy Carter may have called a truce in their personal relations, the Chancellor has doubts about the US President’s leadership ability.

Four days before Carter celebrated the spectacular reconciliation between Egypt’s Anwar el-Sadat and Israel’s Menachem Begin in Camp David, Schmidt had given free rein to his vision of the future in a speech to the SPD parliamentary group: ‘There have already been four wars in the Middle East, and nobody can rule out a fifth.’ Another military conflict or a renewed threat to use the oil embargo weapon would, however, severely depress the world economy once again.

Following the negative criticism from Saudi Arabia and Syria, Schmidt is prepared to give only average marks to the outcome of Camp David. There was agreement in the Cabinet last Wednesday that peace had not yet been achieved. And the lack of clarity of the Camp David Agreement has sent the dollar to a new low.

And so the Chancellor’s vision of the future lies somewhere between grey and black. The sparring over the neutron bomb, what Schmidt sees as the USA’s egotistical approach to uranium deliveries and nuclear energy, Carter’s policy of needling the Soviet Union and an economic strategy determined only by US needs have all left their imprint. For Schmidt, as he admits to his immediate entourage, the Administration in Washington remains ‘entirely unpredictable’.

His line, briefly, is that the Europeans must occupy the space which the North Americans have vacated. The Chancellor previously had little more than contempt for EC Europe Brussels-style, but having now lost confidence in the USA, he is henceforth looking to a stronger Europe for backing. And the new lead figure for Europe will be called Valéry Giscard d’Estaing. As one German Minister put it: ‘Giscard will be marching up front; Schmidt is quite deliberately letting him take the lead.’

Why the Chancellor, who still very recently saw himself in the role of self-styled ‘world economist’, should of his own free will be giving up the star part is clear enough if one looks more closely at his scenario: as the German economy grows in strength on the world scene, there is increasing sensitivity abroad, and German foreign policy becomes increasingly ‘vulnerable’ (Schmidt’s term), suffering as it does from two weak

points — the status of West Berlin and the moral burden imposed by the not-yet-forgotten Nazi crimes. ‘The hope that, outside Germany, the memory of Auschwitz and Oradour will fade will not be fulfilled.’

Resentment which had supposedly died out can flare up very quickly. Just how quickly is apparent from reports reaching Bonn from the German Embassy in London. Since British TV started showing the American television miniseries ‘Holocaust’, with its depiction of German death-camp atrocities, German diplomats groan that they ‘spend the whole day taking anti-German calls’.

Schmidt’s conclusion is that Germans must, for a long time yet, avoid adopting ‘too self-confident a stance’, so as not to awaken here, there and everywhere such latent ‘envy and apprehension’.

In Aachen, it was the first night of the Chancellor’s new play. The Germans are paying for the performance and directing it too, but the leading actor is Giscard who, to quote Finance Minister Hans Matthöfer, ‘doesn’t have to worry about elections until 1981’. With the help of the European Monetary System (EMS), which Schmidt and Giscard are in the process of launching, the Franco-German entente should, if things work out, flourish and the risk evaporate of the West Germans, in future decades, ‘finding themselves suddenly alone’, to use Schmidt’s own words.

This will involve breathing new life into the ailing European currency ‘snake’, which the French quit in 1976. The idea is that, in as many European countries as possible — the United Kingdom, Ireland, Austria and Switzerland have also been called upon to take part — stable exchange rates will again prevail as they did until 1973, thereby enabling businesses to calculate their costs with some measure of precision. To ensure that the whole arrangement works, when one of the partners’ currencies depreciates sharply — reaching the ‘intervention point’ — the issuing banks, primarily Germany’s, will call on their foreign currency reserves.

The banks will transfer one fifth of their currency reserves in gold or dollars to a fund established for such transactions (‘settlement of balances’). As the Bundesbank possesses the largest amount of reserves, the Germans will also contribute the most — up to 18 billion DM — in order, where necessary, to smooth out exchange rate fluctuations by buying and selling currencies.

The Bundesbank will be sacrificing a further 18 billion DM to finance an artificial European currency known as the ‘Ecu’. And, while its initials may stand for the English name ‘European Currency Unit’, the experts pronounce them ‘eky’ in the French manner, thereby putting a fresh shine on a glorious past: from 1266 to 1803 the Ecu was a French gold or silver coin.

Admittedly, the eurocurrency is of only limited use for present-day commerce, being restricted to book transfers between issuing banks, for which purpose one Ecu is worth about 2.50 Deutschmarks, 1.20 US dollars or 5 French francs. What other uses it may have is something about which the Finance Minister himself is not too clear; for a long time now he has been trying to pierce the mysteries of the EMS mechanism. As Matthöfer puts it: ‘No one understands a thing about it; but it works.’

The confidence exuded by the Federal Minister for Finance has now spread to the central bankers in Frankfurt, who as late as September had written to the Chancellor advising him against a new currency regime; former Bundesbank chief Karl Klasen and the Economic Affairs Minister Otto Graf Lambsdorff had also protested against Schmidt and Giscard’s idea of adopting the Ecu as a genuine means of payment and recalculating its value on a daily basis according to the parities between the participating currencies (the ‘currency basket’).

The drawback: neighbouring countries would have been free to let inflation rip, with German stability covering the entire cost. Following the objections from the Bundesbank, that danger was eliminated. Henceforth the foreign word ‘parity grid’ would adorn the method hitherto adopted within the ‘snake’ — and the bankers felt much better: ‘We are pleased that things will stay as they were.’

Well, not quite. For the return of the French to the European monetary model and the possibility that the

British and Italians might also join presupposes that the economic strategists on all sides act in concert and bring the high inflation rates in Paris (9.3 %), London (7.8 %) and Rome (11.9 %) down to a level that is bearable.

In order to turn the Chancellor's vision of a stronger Europe into a reality, the Germans are prepared to meet them halfway. Schmidt is ready to walk the tightrope between inflation and stability: 'Nobody can break through a wall with nothing but his head; that gets you nothing but a broken head. Only by pooling our efforts will we get anywhere.'

As from 1 January, the European model will be tested for an initial period of two years. If the experiment succeeds and if, from these monetary beginnings, an economic union begins to take shape, Schmidt's aim will then be gradually to extend the Franco-German alliance to embrace foreign policy and banish the spectre of the isolated German: Schmidt thinks and pulls the strings, Giscard represents and takes the glory.

For Schmidt's Social-Democratic colleagues around the Cabinet table, a Chancellor with such a far-reaching gaze evokes historical associations. Development Aid Minister Rainer Offergeld, a Cabinet Minister for just seven months, was moved to comment: 'I often think of Bismarck when I hear him talk like that.'