''A bungled date', from Süddeutsche Zeitung (19 June 1971)

Caption: On 19 June 1971, the German daily newspaper Süddeutsche Zeitung outlines the reluctance displayed by European countries towards the proposals put forward by Karl Schiller, West German Minister for Economic Affairs and Finance, with a view to introducing joint floating of the European currencies.

Source: Süddeutsche Zeitung. Münchner Neueste Nachrichten aus Politik, Kultur, Wirtschaft und Sport. Hrsg. DÜRRMEIER, Hans ; Herausgeber HEIGERT, H. 19-20.06.1971, n° 146. München: Süddeutscher Verlag GmbH. "Verpatztes Rendezvous", auteur:Strick, Hans-Josef , p. 23.

URL:
http://www.cvce.eu/obj/a_bungled_date_from_suddeutsche_zeitung_19_june_1971-en-583c8d39-f513-49ff-9a27-2a081f8cadb8.html

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A bungled date

No convergence of EEC currencies

By Hans-Josef Strick

The talks this week between the Economic Affairs and Finance Ministers of the European Community on the very pressing currency problems have been described by our partners as 'a bungled date'. The young suitors had obviously kept the tryst at the Plateau de Kirchberg in Luxembourg without any flowers. As a result, the first steps towards the marriage of Economic and Monetary Union, planned for 15 July this year, were not taken. The preliminary trial narrowing of the exchange rate bands between the Community currencies was not introduced, nor was any tangible progress made in establishing any recommendations binding on the Member States, complete with dates and basic parameters for the short-term economic policy to be pursued. In other words, both with regard to exchange rate policy and in the choice of methods to control the trade cycle, the Member States still hold very divided opinions.

The issue that has blocked Economic and Monetary Union, at all events to date, is the lifting of controls on the DM exchange rate, which the Netherlands supported out of necessity, not of its own free will. And yet the opposite could easily be the case. As opinions are at present, there is perhaps hope — though no one will yet make a prediction — that the entire Community will bring itself into line with the proposals of Federal German Finance Minister Karl Schiller. In essence, this plan will allow the EEC currencies to escape from the dictatorship of the dollar through a greater exchange rate flexibility in relation to external currencies. Internally, they should bind themselves more and more closely with each other. In this connection, the Federal Republic, with its mighty foreign exchange reserves, has offered its support if necessary.

Out of the frying-pan into the fire

From the German point of view at least, that is a neater monetary way to give the Community its own 'European monetary personality'. However, although the phrase has already been adopted into the vocabulary of those — such as France and the European Commission — who always talk about the individual identity of a European Europe, no one has yet taken up the proposal. For his part, Valéry Giscard d'Estaing, the French Minister of Finance and current President of the Council of Ministers, has considered Karl Schiller's revived proposal of 15 June and given a clear 'no'. This was quite possibly — or even probably — not based on monetary considerations but rather on somewhat irrational political motives. Whilst the French see full well that, in this way, the European currencies could be weaned off their dependency on the dollar, should they not, perhaps, have already asked themselves whether they are submitting to dependency on the Deutsche Mark and which dependency would then be the more acceptable to them? It must be convincingly clear that the alternative to the hegemony of the dollar could be not a new dependency but simply a common European monetary mechanism that is naturally embedded in the international monetary system.

A beneficial constraint

Work on such a mechanism has been going on for many years now, without anything tangible having emerged from the process to date. At the same time, the power of the USA as a leading currency has been in no hurry, understandably so, because the present system helps to finance the dollar deficit. To date, the Europeans, to whom this process must be a matter of the utmost urgency, have not been capable of expediting the course of events, simply because they cannot agree on which way they should go. Perhaps the lifting of controls on the Deutsche Mark can be quite helpful both in advancing the cause of European solidarity and generally encouraging a willingness to accept reform before the annual meeting of the International Monetary Fund in Washington in September. The fact that the Deutsche Mark has temporarily been withdrawn from the old rules could have a beneficially restraining effect, considering the importance of the German currency in the international monetary system.

One of the reform models being discussed in detail at the International Monetary Fund is the one with greater band widths against the dollar, which would permit greater external flexibility. When the six Finance Ministers of the EEC meet again in Brussels on 1 July, this key phrase ‘greater band widths’ will probably play a decisive role. Should the Six come to an understanding on this question and also be able to adopt a Community position for the IMF negotiations in September, that would undoubtedly represent a significant step forward and a step in Karl Schiller’s direction towards greater mobility.

Divided over band widths

The question of by how much the fluctuations margins of European currencies could be widened in relation to external currencies remains unsettled. The position of individual national economies and their currencies would neither demand nor justify equally wide margins. Perhaps a decision on fundamental principles — that the broad bands could be widened in relation to external currencies — would be feasible, but this would not say by how much. So that question probably remains on the agenda of the central banks.

Incidentally, the European Commission will next week present its proposals to supplement the measures to fend off currencies and neutralise the effect of the speculative money flowing into Europe. The Finance Ministers will consider them on 1 July, in accordance with an astute arrangement first of all as part of their regular quarterly conferences, without any power to take decisions on behalf of the Community. However, should matters develop to the point where a decision could be taken, then the conference will reassemble as the Council of Ministers so as to be able to provide the necessary signatures.