

Address given by Helmut Schmidt (Bonn, 14 February 1973)

Caption: On 14 September 1973, the German Finance Minister, Helmut Schmidt, announces to the Bundestag the Government's policy to overcome the global monetary crisis.

Source: Bulletin des Presse- und Informationsamtes der Bundesregierung. Hrsg. Presse- und Informationsamt der Bundesregierung. 15.02.1973, Nr. 17. Bonn: Deutscher Verlag. "Erklärung der Bundesregierung zu den Währungsbeschlüssen ", p. 149-151.

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Federal Government statement concerning the monetary decisions

Madam Speaker, ladies and gentlemen,

The monetary crisis, which dominated world affairs for ten days and also created difficulties for our and the other European currency markets, has been brought to a satisfactory conclusion. You are, of course, aware of the decisions that allowed these difficulties to be overcome. I shall therefore simply go over the main points.

Firstly: the US Administration has asked Congress to devalue the dollar by 10 %. In practice, this adjustment has, however, already come into effect. The American Administration has also announced, in the same connection, that the President will shortly be submitting to Congress a comprehensive package of commercial legislation enabling negotiations to proceed on the further dismantling of tariff and non-tariff trade barriers. And certain US capital transfer controls are to cease to apply by the end of 1974; this should, among other things, encourage direct, foreign investment in the United States.

Secondly: the Japanese Government has, for its part, announced that it will be letting the Japanese yen float. This is indeed what has happened today with the reopening of the currency markets in Japan. The de facto revaluation of the yen amounted by midday today to 4.1 %. I assume that a substantial further increase may be expected.

Thirdly: with the exception of Italy, the major European currencies have held their rates. Sterling continues to float.

The Federal Government welcomed these interlocking decisions, which encompass its own, as soon as they were announced on Tuesday morning. It now reiterates its positive assessment before this House.

It is our view that the United States of America has responded appropriately to the international monetary situation. The American Administration's decisiveness and its readiness to act quickly have at the same time greatly served the strength of the Atlantic Alliance and the freedom of international trade. The Federal Republic of Germany is likewise committed to these founding principles of cooperation.

The Federal Republic also welcomes the Japanese Government's decision to make a significant contribution to a more balanced exchange relationship between the dollar and the yen. The incorrect evaluation of the two currencies' relative strengths accounted hitherto for two thirds of the US trade gap and of the dollar's vulnerability. For example, the US trade deficit stood at more than USD 6 000 million in 1972, of which 4 000 million was attributable to trade with Japan and only 500 million to trade with the whole of Europe.

The international resolution of the monetary crisis owes a great deal to close cooperation within Europe and between Europe and the United States and, finally, also to America's and, to a limited extent, our own discussions with Japan. Only this broad, world-encompassing framework was commensurate with the scale of the problems. It will have become clear to thoughtful citizens in the course of the past week that the issues actually exceeded the bounds of monetary policy and that a solution would have to be found in the framework of the political alliances.

This cooperation was, of course, particularly intensive and conducted in a particular spirit of trust within Europe and with the United States, whether directly between the Heads of State or Government or between the Ministers most immediately concerned. I should like to make special reference here to the close and fruitful relations established with the French Finance Minister, Mr Giscard d'Estaing, and Britain's Chancellor of the Exchequer, Mr Anthony Barber, and express my gratitude for their cooperation.

In this context, we had our particular German contribution to make in the preparation of the decisions that were required. Given the way in which the crisis had come about, a point on which I have already touched, our role could not, for example, be to press ourselves into overhasty, lone action or allow ourselves to be pressed into going it alone in this way.

Admittedly, our approach called for steady nerves, particularly as there was little prospect of it being understood in all quarters in the first instance — as will be appreciated, the necessary clarification cannot, in the critical stages, be shouted from the rooftops. The public statements made by the Opposition in recent days were not entirely helpful; that also applies to the pointed accusations levelled at US politicians.

However, given the outcome, I am convinced that the Federal Government's tactics have been shown to be correct, at least in retrospect, a point that, I am sure, even the doubters will now concede. This is a point that needs to be made in relation to the political and psychological pressure in favour of unilateral German action which became apparent in the decisive days.

If we had lost our balance in the winds of speculation and had closed down our foreign exchange markets this past week, we would today be in real trouble. That would have been the prelude to a solo decision to float the Deutschmark. The Japanese would no doubt have had to follow suit, but otherwise no one. That would have been to go it alone, with all the political — especially europolitical — and economic consequences that could be expected. For the Federal Government, three straightforward considerations argued against the pressure to take such action at the wrong time by the wrong means.

Firstly: our virtually neutral balance of payments on current account, which is to say the overall balance in the figures from our foreign trade, from current payments, by guest workers for example, from services and from payments made by German citizens travelling abroad. Our current account position does not, therefore, point in any way to a rise in the value of the Deutschmark. The balance of payments on current account is neutral to within 500 million dollars. Nor does the current account position point to a need for an upward movement of the Deutschmark vis-à-vis particular trading partners.

Secondly: we did not want to prejudice the ongoing and forthcoming negotiations. We wanted rather to preserve our negotiating position.

Thirdly: on no account did we wish to confirm the Deutschmark's erstwhile reputation, that of a currency ever and in all circumstances a candidate for revaluation.

To have encouraged this old suspicion of the risk of revaluation would have been to threaten the future stability of our currency.

A fourth reason for our approach was, however, at least as important as the other three together. I am referring here to our acute awareness of the consequences for the European Economic Community if, acting alone, we had decided to set the ball rolling in a particular direction. Those consequences would have been not only economic but above all political in nature.

As we saw it, the overall political problem lay in the need to respond simultaneously to three interlocking imperatives. We had to defend our economy and its high level of employment; at the same time, we could neither allow ourselves, nor did we wish, to put cooperation within the EEC and the first steps towards economic and monetary union at risk; and, finally, we could neither allow ourselves, nor did we in any way wish, to threaten our good relations with the United States of America.

In all probability, the worldwide, all-encompassing result now achieved through the combined action of the USA, Japan and Europe would not have been possible if we had decided last week to go it alone.

As regards the influx in liquidity resulting from our 'stubbornness', the Federal Bank should, under the conditions that now prevail, have no problem in dealing with the issue. Part of the dollar inflow will subsequently be reversed. Another part consists of advance payments for German exports and delayed payments for imports. These 'lags and leads', as they are called, will soon have balanced each other out.

I should like at this juncture to stress one point which I am sure is of great political interest to the Bundestag. The scope that existed for a worldwide solution did not in any way preclude the inclusion of a European

model in our deliberations from the outset. And indeed such a model figured in our discussions with our partners from the start. The Government of the United States of America likewise regarded this model as something that could be seriously envisaged. It would basically have involved the EEC states agreeing no longer to shore up the dollar and, at the same time, to ensure through intervention in the EEC currency markets that the relations between individual EEC currencies remain unchanged.

Two factors emerged particularly clearly from the recent discussions and analyses concerning this European model.

The first was a quite definite willingness on the part of France to work for the realisation of this model, albeit with the proviso that it would have to be a genuinely European model and not one that extended only to parts of the EEC. This model would have had the particular merit of offering a visible expression of solidarity among European currencies and of giving some much-needed impetus to the process of economic and monetary union. It would, admittedly, have had certain implications, for example for the use that is made of the currency reserves that are at present controlled nationally. The emergence of this model would have given rise in particular to risks which must inevitably accompany an accelerated move towards economic and monetary union and, above all, a further and rapid decline in the freedom to determine national economic and monetary policy.

The second factor to emerge from the efforts to arrive at this solution with our partners lay in the objective difficulties with which our British friends are having to contend. The same reasons which last summer led to the decision to allow sterling to float downwards now prevented the British Government from restoring a settled relationship with the other European currencies, in other words, determining parities or central rates. This was the case, notwithstanding the British Government's entirely open attitude towards such a model. The decision announced yesterday by the Italian Government to allow the lira to float freely shows that the British Government is not entirely alone with its problems.

We shall continue, however, following all these positive, and some negative, experiences, to regard a European model as a goal to be pursued.

I would add that our British partners share this view. A Council session to be held this evening in Brussels will be an initial opportunity to consider the new situation with all nine Community countries.

In terms of our national German interests, the overall result now achieved may be assessed as follows:

Firstly: this outcome demonstrates that close cooperation with our partners can produce solutions that are rational both economically and politically, rational in terms of our particularly intensive cooperation within EEC Europe and also with our US Alliance partner.

Secondly: the outcome is a success, too, for our economy and the high levels of employment that it offers. The overall impact on the Deutschmark's external value of the American, Japanese and Italian exchange rate measures will not exceed 2 %, even if a few, smaller trading partners were to follow the American lead, wholly or in part. Indeed, it may well be that the figure will be only 1 %. To make the same point a little more vividly: our imports from the United States of America will cost us rather less. Our exports to the United States of America will produce somewhat higher returns. Herein, of course, will lie the difficulties for a series of sectors and industries. They will not be able to raise their prices in the same proportion as the dollar was devalued.

Our dealings with the countries with which we conduct the bulk of our external trade will be entirely unaffected. I am convinced that our economy is, by and large, capable of handling this modest intensification of international competition, even though — as I have already said — there are some exceptions which will call for special care and attention. I have no doubt that our competitive position in relation to Japan is tending to improve. This is something which should become apparent as our countries compete in other markets. In addition, I should like to stress how quickly it proved possible to bring to an end this period of uncertainty in monetary relations.

As a footnote to this assessment of recent events, I would add that it is utter nonsense to assert, as I have heard, that the devaluation of the dollar and the accompanying devaluation of the dollar reserves of the entire world's central banks would cost the taxpayer here in Germany 7 000 million marks. That truly is nonsense. The fact is that neither the federal budget nor the taxpayer will be affected by the technical accounting procedures used by the Federal Bank.

The very limited impact that these monetary measures will have on our national economy does, however, make one thing quite clear, and this I should also like to stress, namely that we have not conducted a policy of domestic economic stabilisation with our monetary policies. To put it differently, the position as regards our economic stability and the resulting problems are hardly affected and are hardly made any easier by the worldwide monetary operation. Accordingly, in the next few days, and together with the Federal Bank in the first instance, we shall need to consider with particular care how the instruments at our disposal may best be directed at meeting monetary demands externally and stabilisation objectives internally.

I would add that the Federal Government is pursuing the objective of dismantling controls under Section 23 of the Foreign Trade and Payments Law (*Außenwirtschaftsgesetz*) in the reasonably near future. Amendment of the legal provisions concerning the cash deposit is a necessary precondition for this.

A final point to be made with some emphasis is that the action taken to overcome this crisis has nothing whatever to do with a reform of the international monetary system.

It has at best, through a trend towards a healthier US balance of payments, done something to improve the environment in which that reform is to be conducted. The Federal Government attaches very great economic and political importance to the reform of the international monetary system. This is why, together with the Federal Bank, it is putting all its weight behind the reform effort being pursued in the context of the International Monetary Fund.