

'Britain rejects both the snake and the apple' from The Guardian (23 November 1978)

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Britain rejects both the snake and the apple

As the possibility of Britain joining the proposed European Monetary System on January 1 has diminished, the first aim of British diplomacy has become how to prevent a general deterioration of Britain's relations with the Common Market. The Cabinet is yet to make a formal decision, but Ministers have come to regard the EMS as little more than a thinly disguised version of the old German dominated currency snake.

To this end the Government will be trying to preserve the ability to influence — from the outside — any development by the snake in the direction of a genuine "European" currency system. What Ministers mean by "European" is a system which would work towards a convergence of economic performance among the nine members of the EEC rather than one which would hitch the weaker currencies, including the pound, to the Deutschmark at the expense of the industry of those countries.

This line of argument from London — although there is some logic to it — will be regarded in most European capitals as the acme of hypocrisy — a case of the British posing as more European than the "Europeans" for the purpose of disguising their government's lack of authority to make a potentially historic decision.

In Britain a consensus of despair seems to have formed around this arcane issue. It is too big a question for a lame duck government. The mood among Ministers is that they have quite enough difficulty on their plates already without helping themselves to some more unpalatable European pudding.

Mr Callaghan and Mr Healey's original lack of enthusiasm for the Schmidt-Giscard design was rooted in a certain conviction but now their position seems to be one chiefly of canny political calculation; they reckon that neither the advantages of belonging nor the disadvantages of not belonging are worth yet another great row within the Labour movement.

Essentially, this was what the Prime Minister was trying to say to Chancellor Schmidt in Bonn last week when he told him that his chief priority was the domestic fight against inflation and that he was not inclined to open a second front.

Officially, the British line is that it is still intent on turning the proposed Franco-German scheme into something generally workable and acceptable to the British. The prospects for this, however, are now forlorn.

Some British Ministers are in private quite scathing about the French President for wrapping in high-flown European rhetoric what they see to have been a sell-out to the Germans at his meeting with Mr Schmidt at Aachen on September 15. It was at this meeting that President Giscard d'Estaing, in effect, settled for rejoining the Snake as a first step towards his more grandiose vision of a European Monetary System with its own reserve fund and its own currency.

Senior French officials see the matter quite differently and, allowing for the ruthlessly self-serving nature of official briefings to visiting correspondents, I became convinced after three days in Paris last week that the British Government has seriously misjudged the French position.

According to the French officials, and also to several qualified observers in Paris, the British have been sorely mistaken in the weight they have attached to the notion that the French are in a hurry to rejoin the snake as a temporary measure to help themselves through a difficult winter in their domestic struggle against inflation.

This line of analysis, which goes on to suppose that President Giscard d'Estaing will soon run into political difficulties, rests on the belief that there is no way in which France — with an inflation rate currently higher than Britain's — can for long live in a fixed parity relationship with Germany.

This view is based on several miscalculations and it is to be wondered why such a large and vastly

expensive British Embassy is maintained in Paris if its advice is scarcely heeded in London. The first truth of the matter is that President Giscard d'Estaing, quite unlike Mr Callaghan, is in a position of immense political strength and for the time being can do more or less what he likes.

From that position of strength he has come to a decision concerning the future of France within the European Community which has little to do with whether or not he thinks hitching the franc to the deutschmark will assist his Prime Minister, Mr Raymond Barre, in his fight against inflation this coming winter.

That is one consideration but only one among others and is several places down the President's list of priorities. One of the reasons why he is in a hurry is that he wishes to launch the new initiative towards economic and monetary union in Europe before the Community becomes caught in the throes of further enlargement to include Greece, Spain and Portugal.

The chief of the President's priorities is to position France squarely alongside Germany in the vanguard of Western Europe. Keeping up with the Germans has become almost an obsession of the French Government and contrasts with the defeatism which prevails in London.

Rather than selling out to the Germans, as the British choose to believe, President Giscard d'Estaing appears to have decided to place his trust in Chancellor Schmidt's ambitious intentions, to understand his domestic political difficulties, and to gamble on his being able to deliver more in due course of substance than he could be expected to deliver on paper by December. That is why at Aachen the French President settled for what at the outset will be — in reality — not much more than an enlarged snake; in Paris they now admit this and call it a "snake with bells."

What happens when the bells ring is the central point in technical dispute but before reporting the French position on that it ought to be made abundantly clear that all such technical questions while regarded as crucial in London, are of secondary importance in Paris. The political commitment has been made.

The only technical aspect which fundamentally concerns the French is the amount of German money which will be put behind the system from the outset. The French would like to see the full amount of dollar and gold reserves which might eventually be at the disposal of a European Monetary Fund — that is \$25 billions from the member countries together — being available through central banks and finance ministries to back up the EMF from its inauguration next year. On that basis France is prepared to adopt a pragmatic approach to the institutionalising of the EMF within the context of the European Community.

Importance is still attached to the creation of a European currency (the ECU) — first for intra-European transactions and subsequently for interventions against the dollar — and equally, to the establishment of an EMF.

But rather than jeopardise progress towards eventual institutionalisation by precipitating the need for controversial legislation in Germany (and in France too) President Giscard d'Estaing prefers to feel his way forward, trusting his friend Chancellor Schmidt.

Membership of the snake is said to have a number of advantages for French industry. It is claimed that greater currency stability will facilitate intra European transactions and encourage investment in French industry. The authorities are prepared to accept a somewhat higher deutschmark parity in exchange for this greater stability.

Moreover a strong parity against the dollar cheapens France's essential imports of raw materials including energy of which, unlike Britain, she has to import 75 per cent of her needs. And, some importance — although far less than London imagines — is attached to the contribution which a greater external discipline could make to the control of the domestic money supply.

So well as the French would join with Britain in preferring a system which required prompt and effective

intervention when the warning bells on the snake ring, the exact details are of secondary importance. The latest intention is that the snake (which is an arrangement by which all the member currencies are linked to each other) should be equipped with a warning system capable of identifying which currencies are responsible for undue fluctuations within the system.

All that the Germans, together with the Dutch and the Danes, are prepared to concede is that when alarm rings there should be a "consultation." The French and the Belgians go further and say there should be a "presumption" to intervene. The British, with the Italians and Irish in sympathy, say that there should be an "obligation" to intervene.

What the argument is really about is the extent to which Germans ought to be prepared to buy in dollars (which they fear will be inflationary) in order to check the appreciation of their currency as against the onus which should fall on weaker currencies to prevent depreciation by the exercise of greater fiscal and monetary discipline.

There is modest scope for compromise in this area but not of the kind likely to satisfy the British. By the time of the EEC Summit in Brussels on December 5 Britain looks certain to be isolated once again. There should be no doubting the determination of the French President to link the franc to the deutschmark for the greater glory of France and although there is a good deal of misgiving about this at lower official levels in Paris, there is virtually no doubt that he will succeed in his intention.