

Interview with Jacques Santer: the implications and the creation of the European Monetary System (Sanem, 6 April 2006)

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[Étienne Deschamps] In 1979, you became the Minister for Finance. What do you recall of the implications, and the creation, of the European Monetary System, the EMS, at that time?

[Jacques Santer] The European Monetary System was the first attempt to ensure that currencies should evolve in a more orderly fashion than before, and to prevent these periodic adjustments. There were fixed cycles. So from that point of view it was an advantage for us, and above all, since our currency was linked to the Belgian franc, it obliged our partner to keep its own currency within the margins set by the European Monetary System. This does not mean that there were no adjustments made — spectacular ones, even. For instance, the French franc devalued ... I cannot remember how many times. I believe that Mr Delors once reminded me that, up to 1983, there had been three devaluations of the French franc. Inflation was really endemic in France, always in double digits, and so forth. It was therefore necessary to curb inflation; it was also a period when the unemployment rate was exceptionally high. This was all at a time when there were no prospects for the future, with oil prices that were not, of course, as high as today's, but which, by comparison with those of earlier years, had nonetheless tripled or even quadrupled. It was truly a period when what was called at the time 'sclerosis' had set in within Europe. They were really black years, it must be said, and I could not see a ray of hope at that time.

They were truly difficult years, those between 1979 and 1984/1985, I should say. It was the same for our country, where we had to introduce diversification, to find some way to diversify. We were also having difficulties with our financial centre at the time. A financial centre was beginning to be established, to emerge, but owing to the difficulties in the international environment, a number of banks were leaving Luxembourg. All the American banks had left, for London, for example. In those days there were a lot of American banks here, Wells Fargo Bank and all the other banks that started off our international financial centre. However, they are no longer here; they left for London, for the City of London. Later on they would have liked to come back, but at that moment it was a major difficulty, a time when we really had to work together. But I must say that it was the European Monetary System that helped us. It helped us because at least there was some coordination between the various European monetary policies, and no adjustment could be made without agreement at international level, and I believe that this was a good thing. It calmed things down a little, on the monetary level, anyway.