

## 'Birth pangs of the EMS', from La Libre Belgique (6 December 1978)

**Caption:** On 6 December 1978, following the Brussels European Council, the Conservative daily newspaper La Libre Belgique gives an account of the difficulties involved in the European Monetary System (EMS) and expresses concern over its future.

**Source:** La Libre Belgique. 06.12.1978, n° 340; 95e année. Bruxelles: Edition de la Libre Belgique S.A. "Naissance difficile pour le S.M.E.", p. 1; 5.

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## Birth pangs of the EMS

Although it was expected that Tuesday evening would be the occasion for celebrating an event equal in magnitude to the signing of the Treaty of Rome and which, in the wake of the Customs Union could have put Europe on the path to monetary union, a certain bitterness surrounded the departure of the Heads of State or Government.

The European Monetary System (EMS) has only just seen the light of day, and cracks are already visible.

The system will definitely be in place by 1 January next but in only six countries. The Federal Republic of Germany, France, Denmark and the three Benelux countries have expressed their willingness to join. Italy and Ireland, in the face of resistance to their financial demands, have asked for more time to think before the next meeting of the Council of Finance Ministers, scheduled for 18 December. The United Kingdom has not yet officially announced its decision, although it is quite clear that it does not intend to join the new club on 1 January.

### **Partial failure or partial success?**

It is the problem of the transfer of resources laid down in the Bremen Agreement that caused deadlock in the European Council on Tuesday afternoon. This followed tough bargaining on the economic measures to be taken in parallel with the operation of the EMS so as to balance the economies and avoid excessive distortions between the partner countries. The experts had hardly touched upon this aspect, although they had worked a lot on the substance and operation of the EMS.

Justifiably, the poorer countries wanted the Council to take decisions on an increase in the endowment of some of those instruments that help to even out the differences between economies. In the case of the Regional Fund, they base their positions on the European Parliament's amendment to increase the endowment with effect from the 1979 budget. However, they also asked for additional interest rebates on some European loans and the creation of an instrument, yet to be defined, to allow for the funding not of individual projects (as is the case with the Ortolli Facility) but of an integrated plan for infrastructure development.

For its part, the United Kingdom brought into the equation a discussion on the guidelines to be laid down for the common agricultural policy and on the balance between contributions to common expenditure.

It was these parallel measures that caused the negotiating climate to deteriorate on Tuesday afternoon. The optimism that traditionally reigns at the end of the first working day was replaced by a tense atmosphere.

This partial failure means not only that the 'snake' has gained a new partner (France); the EMS, in the form it will take, goes much further than the old system that was simply an exchange rate mechanism. In this respect, the optimists will even be tempted to refer to the meeting of the European Council as a partial success, since the EMS will come into being and could, perhaps, trigger off an economic policy process, that the participants would like to see become irreversible within two years. However, the way in which the deliberations at this year's European Council took place hardly argues in support of such an interpretation of events ...

However that may be, there is no doubt that, over the coming weeks and in the run-up to the next meeting of the Council of Finance Ministers, Germany and France will make every effort to secure at least Italy's and Ireland's membership, without having recourse to arrangements that would all be flawed. As far as the United Kingdom's membership is concerned, it will come about only at a much later date, and the Council has already devised the mechanisms that will govern its relations with the countries within the System.

### **A hectic day**

Monday was a long day for the Heads of State or Government meeting in Brussels. It was not until nearly

2.30 in the morning that they adjourned, having agreed on the mechanism of the new European Monetary System and the arrangements for central bank intervention in the event of excessive fluctuation by a currency in the system. Some, not insignificant, issues still had to be resolved, and it was in order to deal with them that they convened again on Tuesday morning in the Charlemagne Building.

From the outset it was clear that, perhaps because of fatigue, the going was rather tough and the parties involved were far from being on the same wavelength, particularly over the issue of the transfer of resources to the less wealthy EEC Member States, namely Italy and Ireland, given that it was already clear that the United Kingdom would not participate in the system from the start.

Italy, for example, was requesting a global amount of 1 800 million ecu or 72 000 million francs, spread over five years. That was twice the amount that Chancellor Helmut Schmidt was proposing. The request provoked a strong reaction from France. Valéry Giscard d'Estaing retorted that his country's finances could not be destabilised in order to secure the accession of two other countries. Membership, the French President said, should be an act of political will and based upon economic considerations.

Following this rather tense exchange, the meeting was adjourned, and Mr Giscard d'Estaing and Giulio Andreotti held a private meeting. At that stage, in the antechamber of the Council, the possibility that Italy and Ireland would not join the EMS was not being excluded, in which case it would have only six members.

In a final attempt to reach a compromise, the Council proposed to Italy and Ireland a credit line of 5 000 million ecu, or approximately 200 000 million francs, to be drawn down from the EIB. This would be a five-year loan at 5 % interest. Furthermore, the two countries might secure additional loans of up to 1 000 million ecus, or 40 000 million francs, from the European budget over a five-year period.

The Italian and Irish delegations asked leave to consult their governments on the matter before responding, and that plunged the Council into a state of expectancy that had not ended by the time of going to press.