

'The snake', from Le Monde (22 January 1974)

Caption: On 22 January 1974, the French daily newspaper Le Monde describes the range of parities between the French franc and the German mark in the European currency snake.

Source: Le Monde. dir. de publ. FAUVET, Jacques. 22.01.1974, n° 9 026. Paris: Le Monde. "Le serpent", p. 4.

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The snake

On 22 April 1972, the European 'snake' began operating. At that time, it comprised the currencies of the enlarged EEC (French franc, German mark, Italian lira, Dutch guilder, Belgian-Luxembourg franc, Danish crown and the pound sterling) together with the Norwegian crown.

The pound sterling was withdrawn from 23 June 1972, as was the Italian lira from 23 January 1973.

From 16 March 1973, the Community 'snake' severed its links with the dollar, which floated freely on the market.

The currencies comprising the 'snake' are linked by fixed parities, from which they may fluctuate by a maximum of 1.125 % in either direction, limiting the margin of temporary variation between them to 2.25 %. The exchange rate between the French franc and the German mark, for example, was FRF 172.502 per DEM 100, with an upper limit of FRF 176.425 and a lower limit of FRF 168.665. If, for example, the German mark threatened to burst through its ceiling in Paris, the Bank of France had to intervene to stop the French franc from losing ground against the German mark.

How was the value of the French franc determined in German marks within the European 'snake'? The dollar had remained the intervention currency on the European markets, and therefore the value of German marks in French francs in Paris and of French francs in German marks in Frankfurt was determined not directly but through the American currency.

Supposing that the dollar was worth FRF 4.96 in Paris and DEM 2.82 in Frankfurt, the value of the German mark could be easily calculated by $\text{DEM } 1 = 4.96 \div 2.82 = \text{FRF } 1.758$, or the value of the French franc in German marks: $2.82 \div 1.96 = \text{DEM } 0.568$.