'An inevitable step backwards', from La Libre Belgique (16 March 1976)

Caption: On 16 March 1976, the Belgian daily newspaper La Libre Belgique expresses concern over the repercussions of the latest European monetary crisis.

Source: La Libre Belgique. 16.03.1976, n° 76; 93e année. Bruxelles: Edition de la Libre Belgique S.A. "Un pas en arrière inévitable", p. 1; 11.

URL:
http://www.cvce.eu/obj/an_inevitable_step_backwards_from_la_libre_belgique_16_march_1976-en-169970eb-ca37-4666-b661-5f39de9cc25d.html

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An inevitable step backward

With France's decision to allow the franc to float again and the withdrawal of the Benelux countries from the 'mini snake', the European Union has suffered another setback. No one is cheering. It is all too obvious that integration requires stable monetary parities.

It was the specific purpose of the 1972 EEC agreement setting up the famous 'currency snake' to limit exchange rate fluctuations between the Community currencies. But the absence of the British pound, the Irish punt and the Italian lira from the very start revealed how difficult the enterprise really was. The withdrawal of France at the start of 1974 was a further demonstration of its fragility.

When, in July 1975, President Giscard d'Estaing announced that the franc would rejoin the European Monetary Agreement, there was relief all around. Everything seemed to settle back into place. The disruptions to the western economy caused by the energy crisis appeared to have been more or less absorbed, and all eyes were on the future again. It looked as though it was only a matter of time, albeit perhaps a long time, before Italy and the UK would join the snake.

Unfortunately, though, sickness spreads faster than health. The strong-currency countries have not been able to help the weaker-currency countries to overcome their difficulties.

The virus that has long infected Italy and the United Kingdom has finally spread to the weakest of the strong, France. The recurring political crises in Italy have gradually undermined the lira, and its weakness has only encouraged the speculators to attack the French franc. France's trade balance under the Finance Minister, Mr Jean-Pierre Fourcade, is rather precarious, and the growing competitiveness of Italian products has done little to improve the situation. A case in point is the wine crisis. If Italian wines had not benefited from a competitive edge of an essentially monetary nature, then the wine growers in the Languedoc region would not have become so upset.

As for the pound sterling, its position is even more complex. Inflation has been particularly virulent in the past two years in the UK and at times prices have risen by more than 80 %. But the *de facto* devaluation of the pound has helped British products to remain relatively competitive. The wave of speculation in the pound that has broken out over the last week or so originated in Nigeria's decision to withdraw its London-held sterling deposits. Should a few other countries follow suit, the Bank of England's reserves would quickly be depleted. At the same time, the Bank of England has lowered its interest rates in a bid to revive industrial investment, which is at a painfully low ebb in the UK. But lower interest rates will do little to retain foreign capital in London.

After their relative success in Italy and the UK, the speculators have turned to France. Last week, the Banque de France was forced to buy back 8 000 million francs — 4 000 million on Friday alone. Such a heavy drain on France's foreign exchange reserves could not be sustained much longer.
Mr Fourcade has done his best to save the snake by proposing wider fluctuation limits and a few changes in the central rates. Apparently, he is supported only by his German counterpart, while the other ministers feel that the time is not ripe for such an adjustment. It must be admitted that enlarging the limits beyond 2.25 % could deprive the European Monetary Agreement of most of its significance.

It remains to be seen, of course, what the consequences of this weekend's monetary decisions will be. The first will surely be a lessening of speculation. Since the parity of the French franc against the other currencies in the snake is no longer guaranteed, the risks to speculators will be greater. Some people, however, are wondering whether the Belgian franc might be the next currency to fall prey to the speculators. In that connection, Belgium's great money expert and Finance Minister, Mr Willy De Clercq, has been reassuring and is keen to stress the stability of the Belgian franc. In Belgium, we are fortunate in having good defences to protect our currency. Our two-tier foreign exchange market has always been effective. We have ample foreign currency reserves that can help us to weather currency disruptions. Lastly, although regrettable in principle, the decision to end the Benelux agreement will give us more breathing space in relation to the Dutch guilder. The Benelux countries have always made it a point of honour to set an example of European integration, and now they are having to back-pedal. As for Belgium, we shall have to keep our eyes open, and the government has no doubt learned some lessons from this new monetary crisis. But the current difficulties are not just monetary. Until there is better coordination of economic policies and an alignment of structures, monetary unification will remain illusory. Since 1970, consumer prices have increased by 37.1 % in Germany, 38.2 % in France, 79.2 % in Italy and 99.7 % in the United Kingdom. It is clearly impossible to attain monetary stability when the ravages of inflation affect each currency so differently. The European snake has undoubtedly been very effective in preventing quite a few avoidable disruptions, but on its own it cannot overcome the problems caused by a lack of economic policy coordination.