'No ill-considered monetary system', from Frankfurter Allgemeine Zeitung (13 September 1978)

Caption: On 13 September 1978, the German daily newspaper Frankfurter Allgemeine Zeitung comments on Franco-German monetary relations and criticises the vagueness of the plans for the European Monetary System (EMS).

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. Eick, Jürgen; Welter, Erich; Fack, Fritz Ullrich; Deschamps, Bruno; Fest, Joachim; Reißmüller, Johann Georg. 13.09.1978, Nr. 200. Frankfurt/Main: FAZ Verlag GmbH. "Kein leichtfertiges Währungssystem", auteur:Roeper, Hans , p. 1.

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No ill-considered monetary system

by Hans Roeper

The experts are currently busy working on the shaping of the new European Monetary System, which Federal Chancellor Helmut Schmidt presented at the Bremen Summit as being, in broad outlines, the product of a common Franco-German initiative. It should also be the focus of discussion when Federal Chancellor Helmut Schmidt and President Valéry Giscard d'Estaing meet in Aachen on Thursday. For that reason, we may assume that the central banks of the two countries are also taking part in the talks. At the same time, it is becoming clear that this project has not just monetary and economic aspects but political ones, too.

Bonn and Paris no doubt feel that they are the main bulwarks of the European Community. This is absolutely true, because, of the larger Member States, Britain's support is only lukewarm, while Italy has more than enough to do in coping with its own major economic and political difficulties. The sharp fall in the value of the dollar and the hapless policies of American President Jimmy Carter have led in Europe to a decline in confidence in America. Faced with this unstable and uncertain environment, Helmut Schmidt and Valéry Giscard d'Estaing must have come up with the idea of making at least Germany and France into some kind of calming influence.

For some time now, Paris has deemed it a considerable economic and political handicap that it no longer belonged to the European Monetary System, the 'snake'. Since then, membership of this club — with fixed internal exchange rates and freely fluctuating rates against the dollar — has counted as an international mark of approval for a reasonably disciplined economic and monetary policy. The Member States also appreciate the fact that they are able to deal with at least one part of their external trade at fixed exchange rates. However, after France twice had to leave the 'snake' because it could no longer comply with the strict rules of the game, Paris did not want to take the risk of joining for a third time, with the possibility of having to drop out once again.

That is why Helmut Schmidt and Valéry Giscard d'Estaing looked for other possibilities to accord similar or equal status to the French currency as to those currencies involved in the 'snake'. These considerations have corresponded with those of the Brussels Commission and certain other European politicians who, for some time, have been emphasising that the division of the European Community into two monetary groups on economic and political grounds was incompatible with the Community's objectives of integration. That is why this situation may have to be settled as quickly as possible and conditions created for weaker countries to be able to participate in a European association with fixed exchange rates.

The intention of giving new impetus to cooperation within the European Community is certainly laudable. Another question, though, is what price should be paid for this. The brief past history of the European Monetary System created by Helmut Schmidt and Valéry Giscard d'Estaing reveals that, compared with the 'snake', it is to be a looser and more flexible construct. Indeed, it has been argued and stated by Bonn time and time again that, in the new system as in the 'snake', fixed exchange rates and clear intervention points should be set out. However, that is only one side of the coin. If, in order to keep to these rate limits, there has to be constant intervention in the foreign exchange markets, and if the weaker countries can easily get hold of the necessary resources from the projected common fund, as mainly Britain and Italy demand, then the new system will quickly become a new source of inflation.

Other important requirements have also not been met. With the persistent wide disparity in inflation rates in the Community, ranging from a good 2 % in the Federal Republic to more than 10 % in France, it is really difficult to imagine how a system of fixed exchange rates is to function in the long term. The French Prime Minister, Raymond Barre, himself expressed doubts about how the system might function, while inflation curves were so different. Certainly the system could be held in equilibrium if the countries with relatively high inflation rates devalued quite often, but that is precisely what they do not want to do. Their preferred course of action will be to ask for large intervention loans and to demand repeatedly a revaluation of the Deutsche Mark.

It is also suspicious that the Brussels Commission recently urged the experts working on the draft of the new monetary system to make haste, for fear that any delay might give one country or another the chance to have second thoughts about it. Accordingly, the Commission feels that the project should be brought to a rapid conclusion so that individual countries would have no time for intensive reflection or to examine what they are letting themselves in for. This pressure is irresponsible. Especially with such important decisions, it is not speed that is required but the greatest care and thought over a period of time. If the system is not endowed with strict rules, it will become a fiasco with inestimable economic and political consequences for Europe.