‘Germany's European partners hostile to the floating mark', from Le Monde (8 May 1971)

Caption: On 8 May 1971, the French daily newspaper Le Monde sets out the comments of the European Commission about the plan devised by Karl Schiller, West German Minister for Economic Affairs, to allow the mark to float after it suffered speculative attacks.

Source: Le Monde. dir. de publ. FAUVET, Jacques. 08.05.1971, n° 8 185; 28e année. Paris: Le Monde. "Les partenaires européens de l'Allemagne sont hostiles au mark flottant", auteur:Lemaitre, Philippe , p. 1; 2.

URL:
http://www.cvce.eu/obj/germany_s_european_partners_hostile_to_the_floating_mark_from_le_monde_8_may_1971-en-3045276e-f351-4ae0-a3c6-b005e399241b.html

Last updated: 06/07/2016

Schiller’s views ignored

Germany’s European partners hostile to the floating mark

The Finance Ministers of the Six will meet at 10.30 a.m. on Saturday to discuss the measures to be taken following closure of the exchange markets in Germany, the Netherlands, Belgium and a number of non-Community countries to prevent an influx of dollars. Mr Conrad Ahlers, spokesman for the German Government, has stated on television that there will not be a new fixed rate set for the mark, which leaves the door open for a floating exchange rate to be established. The Minister for Economic Affairs, Mr Karl Schiller, is openly pleading in favour of this solution and has won over most members of the Government, as well, it seems, as at least some of the employers. While the Minister for Economic Affairs thus remains hostile to any control of capital, the same cannot be said for Mr Karl Klasen, Governor of the Bundesbank, who is strongly opposed to the idea of a floating mark. However, the council of ‘five wise men’, Government economic experts, also spoke out on Friday in favour of a floating mark.

For its part, the Brussels Commission will propose to interested countries that they adopt a number of measures aimed at sterilising the local-currency equivalent of the dollar influxes and controlling exchange markets. For the future, it is marking a preference for the establishment of a dual dollar market, one for commercial operations (with an exchange rate varying within limits known in advance) and another for financial operations (on a free market). In the short term, the Commission proposes that the fluctuation range for all currencies of the Six against the dollar be widened slightly, which could be to Mr Schiller’s liking. The meagre information that has filtered through from the meeting of the Monetary Committee of the Six in Brussels held on Thursday afternoon suggests that Germany’s five partners took a stance that was close to that of the Commission. Only the Germans — and even they seem divided, for the Bundesbank is far from sharing Mr Schiller’s opinion — would prefer to apply a floating exchange rate.

Brussels (European Communities). — When the Commission submits to EEC Finance Ministers on Saturday its proposals for overcoming the current crisis, it will make it crystal clear that the Common Market may be doomed if the Six cannot manage to coordinate their stance. As expected, the Commission, which set out its position on Thursday, is opposed to revaluations and to floating exchange rates.

Above all, it is essential to penalise and discourage speculators in order to remedy this situation, which, in Brussels’ view, is purely the result of speculative movements. To this end, the Commission will, as expected, recommend to Ministers a fairly broad range of banking and regulatory measures.

It should be noted immediately that these include a rather unexpected measure: it seems that the Commission is planning to recommend a slight broadening of the fluctuation ranges of European currencies against the dollar as soon as intra-Community fluctuation ranges are reduced, i.e. from 15 June in principle.

In presenting their proposals, Mr Franco Maria Malfatti or Mr Raymond Barre will try to be more persuasive than ever. For the Commission is convinced that the very substance of today’s Community will be jeopardised if it moves towards decisions of the kind initially sought by the German Government.

In the first instance, it will attempt to demonstrate that there is no justification for such decisions. Its representatives will emphasise, in particular, that, unlike in autumn 1989, the mark is in no way undervalued against other European countries’ currencies. It should be borne in mind that, throughout recent months, Germany’s surplus on its balance of current payments has fallen steadily and become a deficit in the early months of 1971.

Accordingly, a revaluation — which would need to be wide-ranging so as to put an end to speculation — would have every chance of dealing a serious blow to the competitiveness of German industry and hence even to the country’s economic expansion.

The Commission will probably add that what is true for Germany is no less so for the other Member States of the Community.

It will also dismiss recourse to free fluctuation of the mark as hardly appropriate. In addition to the serious difficulties that it would cause for the operation of the Common Market (*Le Monde* of 7 May), the experts in Brussels have always been convinced that such a solution would almost inevitably lead to a revaluation.

A commitment

That being the case, Brussels hopes that, on Saturday, the Finance Ministers will formally commit themselves to leaving the exchange rates alone and show their determination to implement a highly energetic Community programme. But what steps should be taken? In reality, Brussels is now advocating a whole range of measures.

• One series of those measures would have the effect of strengthening the disciplines and constraints imposed on banks and holders of capital. The Commission thus considers that all Common Market countries should now control capital transactions with foreign parties. It will also recommend that accounts opened by residents of third countries at banks in the Community should be subject to negative interest. Further, it will suggest that Member States should draw on traditional monetary policy instruments (such as increasing obligatory reserves) to sterilise some of the dollars offered on the market, or, more precisely, their equivalent value in national currency.

• For greater protection against the disturbances arising from capital movements, the Commission considers that Member States would benefit from the rapid establishment of a dual exchange market, in which there would be a regulated rate — which could be supported by the central banks — for current transactions and a free rate for capital operations (Paul Fabra describes the advantages and problems of such a method in *Le Monde* of 7 May).

• Finally, the Commission plans to propose to the Ministers that the margins of fluctuation against the dollar should rise from 0.75 % to 1 % as soon as the margins among the Community currencies are reduced. Why is the Commission suggesting this when, unlike the other measures advocated, it could not be predicted on the basis of any previous position, comment or observation by the Brussels authorities?

We shall have to await the explanations that Mr Barre will probably give on Saturday. It might be a gesture designed to win over Mr Karl Schiller, whose reaction to the Commission’s programme is bound to be reticent.

Picking up on a theme that Mr Barre has discussed on several occasions over the past few months, the Commission will ask the central banks to take the necessary measures to discipline the Eurodollar market. Moreover, Brussels takes the view that the Community should make representations in Washington and persuade the American authorities to step up their efforts to reduce supply on the Eurodollar market.

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