

## Valéry Giscard d'Estaing, Power and Life

**Caption:** In his memoirs, former French President, Valéry Giscard d'Estaing, recalls the problems associated with the generalised floatation of the European currencies between 1974 and 1976, and analyses the withdrawal of the French franc from the European currency snake.

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## Valéry Giscard d'Estaing, *Power and Life*

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The same snake cannot be reborn twice! The experiment had shown conclusively that we could never make a European monetary system work as long as the weakest currencies had to bear the full brunt of responsibility for maintaining the fixed differential while the strong currencies continued to forge ahead, heedless of whether the others were able to follow. A different formula had to be envisaged.

We spoke about it with Chancellor Helmut Schmidt. I sensed that he was reluctant. He did not believe that we could succeed. He suggested we ask experts to reflect on it. I proposed the name of Bernard Clappier, Governor of the Banque de France. He spoke in praise of Clappier and agreed. He told me that the German expert would be Dr Schulmann, his State Secretary. And we agreed to ask James Callaghan to designate a representative. The meetings and work of the experts would have to remain confidential.

In the proposals that they presented to us, the experts concluded that a stricter system was needed: when the band between the strongest currency and the weakest currency in the system widened as one rose and the other fell in value, the two central banks would have to intervene jointly to restore the agreed differential between the two and prevent the collapse of the system.

The Governor of the Bundesbank, Otto Emminger, was hostile to the project. He had no wish to find himself confronted with an obligation to support weak currencies by selling Deutschmarks, since that might well fuel inflation in Germany. His point of view was shared by almost every German banker.

Along with Helmut Schmidt, we decided on a distribution of tasks between ourselves. Although I was more convinced than he of the utility of the project, I asked him to act as its advocate, especially at the next two European Council meetings in Copenhagen and Bremen.

‘Since the main problem is to convince the German financial community, you are better placed than I to do that,’ I said to him. ‘For my part, I shall work with Bernard Clappier and your experts on the development of the project.’

He hesitated for a moment.

‘It has been reported to me,’ he said, ‘that the Banque de France is not very much in favour of the project either and that you had your work cut out to convince them. I have the impression that we two are the only ones who are committed to this project.’

I answered, ‘I, too, believe we are alone in this. But the French monetary authorities will be easier to persuade than yours. Moreover, it is ultimately in our interests. The real difficulty relates to Germany.’

He agreed, but then he added a question that had been on his mind:

‘What can we do to ensure that the British subscribe to the agreement?’

The new President of the Commission, Roy Jenkins, was an ardent supporter of a monetary Europe. He had recently undertaken a round of visits to the leaders of the EEC Member States, and the monetary issue had been on the agenda in his talks. I had received him at the Elysée, and he had discussed it at length with me.

As for James Callaghan, he was a moderate pro-European but also a prudent politician. He knew that the left wing of his party was hostile to Europe and was clamouring for British withdrawal from the Common Market. He feared that an excessively bold initiative would revive the ‘Britain out’ campaigns. Moreover, the financial experts in the City were sceptical and hostile towards the project. They regarded the pound sterling as ‘petro-currency’, fluctuating with oil prices and destined to take a different course, and no doubt a more brilliant one, than the continental currencies that were being strangled by the oil shortage.

Before and during the Bremen Summit, Helmut Schmidt had to act on two fronts. The German financial community had twice experienced the mishaps of the monetary snake. They supposed that a new experiment was most probably inevitable from a political point of view but deemed it equally probable that it would neither be any more sustainable nor any more binding on German monetary policy than the previous attempts. This sense of resignation was Helmut's green light.

His position towards the British was more difficult for me to fathom.

As a northern German, he was sensitive to the influence of the United Kingdom and its financial prestige. He had wanted Britain to join the Common Market and had been a critic of French obstruction. Conversely, he was irritated by the dogmatism of the Labour Party and particularly that of its left wing. He felt a distinct aversion to Harold Wilson's vacillations and deplored the fact that it was impossible to rely on any undertaking at all that Wilson gave. And he had obvious sympathy for the plight of Britain, which was in very steep economic and financial decline at that time.

Since March 1976, when James Callaghan succeeded Harold Wilson as Prime Minister, matters had improved. Helmut respected and trusted him. He spoke of him in favourable terms in our telephone conversations. They held private talks.

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Helmut Schmidt wanted to secure British participation in the new European monetary system. Did he really think it possible? He mustered all his powers of persuasion to this end, as he described to me in detail. Or did he simply need to demonstrate that he was doing his utmost with a view to pre-empting the criticism that would be levelled at him by certain economic circles in Germany and by his own political friends?

For my part, I considered British participation to be unrealistic. From James Callaghan's statements, I gathered that his intention was to go as far as possible in negotiations in order to ensure that the adopted system did not conflict with British interests in the short term and that it might even be the sort of structure to which Britain could possibly accede at a later date. But immediate participation could not be contemplated.

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I assisted Helmut in his efforts, not out of conviction but rather out of a desire not to discourage him for fear of reviving the old French reputation for opposing, as a matter of principle, any possibility of British participation. This would have prompted the other partners to distance themselves from us.

The decision was taken at Bremen, a Hanseatic port and a neighbour to the city of Hamburg, at the meeting of the European Council on 6 and 7 July 1978, to which Helmut Schmidt had invited us.

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That was where the cards were put on the table.

Helmut broached the subject directly with Jim Callaghan with the aim of forcing his agreement. Helmut Schmidt is a fighter who believes in his powers of persuasion. Two of our Benelux partners, the Prime Minister of Belgium, Leo Tindemans, and Gaston Thorn of Luxembourg, supported him in his efforts. My concern was to ensure that their arguments should not lead us along a path which would culminate in a declaration to the effect that the system could not work without British participation and that it was therefore better to drop the idea.

The Italian Prime Minister referred to the particular circumstances in his country and asked that Italy be given a wider margin, namely 6 % above and below the average rate, as opposed to the leeway of 2.25 %

that featured in our draft.

Chancellor Schmidt saw that an opportunity was about to present itself, and he tried to grasp it. He suggested that the British could also be granted a wider margin, at least for an initial period.

Instead of easing Jim Callaghan's mind, this proposal annoyed him. He pointed out that, if the United Kingdom decided to take part in the monetary system, it would be as a full member and that he could not countenance his being granted a special dispensation.

The Irish Premier created a diversion by announcing that his country was willing to participate in the system, even if the United Kingdom did not subscribe to the agreement. Until then, the Irish punt had always been closely dependent on the pound sterling. The idea of the punt being detached from sterling seemed incongruous to Jim Callaghan, and he told us so.

The boat was beginning to take in water. We were gradually sinking. Carried by the momentum of his own arguments, Helmut Schmidt still thought that he could secure Britain's agreement. Jim Callaghan, perturbed by the turn of the discussions and increasingly aware of his isolation following the Irish defection, became entrenched in his Welsh obstinacy. I sensed that he would not give way.

It was then that the idea occurred to me of splitting the problem in two: the first part would be a general agreement to which Britain could subscribe, while the second part would be a mechanism for setting fluctuation and market-intervention margins from which Britain would be absent.

At the point of deadlock that we had now reached, this solution seemed to be the only possible way out. I presented it. The Prime Ministers of the Benelux countries supported it. The Italian Premier approved it but reserved the right to opt out of the fluctuation and intervention mechanism, too. He suggested that, if agreement were reached, we should resume discussion of this point with him.

Helmut Schmidt felt thwarted by this formula. I sensed that he was irritated and psychologically antagonised. For one last time, he restated his arguments to try and convince Callaghan. But the two were no longer on the same wavelength. Then, as often happens at these international meetings, after lengthy discussions in which the arguments seemed irreconcilable, a crack suddenly appeared in the brick wall, the tension subsided, and the meeting moved on seamlessly to negotiate the details of an agreement that had seemed highly improbable only a few hours before. This is precisely what happened, thanks to the assistance of our other partners, who feared the impact of failure on public opinion at home and on the value of their respective currencies. Then came the congratulations. Helmut grumbled. Jim Callaghan was relieved: he had avoided British commitment but had reserved the option of participation at a later date. He was later to become an ardent partisan of the monetary system. The Irish bravely confirmed their agreement. And the Italian Minister of Finance finally accepted the plan, reserving Italy's right to follow more flexible implementation procedures.

In the afternoon, around the Council table, we discussed the wording of the communiqué. The European monetary agreement presupposed the existence of a unit, an accounting currency, which would be the embryo, the gene, of the future European currency. What should it be called?

Embarrassment around the table. It would be difficult to give this unit an English name now that Britain had opted out. It hardly seemed conceivable to use any of the other Community languages apart from French. And from the few observations that had been exchanged, I guessed that our partners would be reluctant to choose a French name, which would be seen as another manifestation of our country's intellectual imperialism.

I asked Helmut Schmidt, who was in the chair, for leave to speak. The general uneasiness deepened.

'I propose that we do not give the new accounting unit a special name, but rather designate it quite simply by its function: *European Currency Unit*.'

And I spoke those words in English.

General surprise and relief. Jim Callaghan's face lit up. He expressed his satisfaction in a whisper into the ear of his Foreign Secretary, David Owen. There was no need to take soundings around the table to ascertain the Council's unanimity. Helmut Schmidt, who had immediately understood the play on words, seemed amused by it. He must have been thinking that this would make it easier to 'sell' the system to French public opinion, as was his wish. He noted the Council's consent to my proposal.

'In practice,' I added, still speaking English, 'we shall find it more convenient to use the initials, as we do with SDR for special drawing rights. In written documents, it would be better to insert them in brackets: European Currency Unit (ECU).'

No objections. A degree of astonishment. People were wondering whether some secret trick was being played. The Belgian Prime Minister was the first to smile, followed by the others.

And so it was that the European currency came to be baptised *ecu*, taken from the name of the *écu*, the highest denomination of French currency at the time of the Valois dynasty.

On 13 March 1979, the new European Monetary System entered into force on the basis of a parity of one mark to two French francs and thirty centimes. This was to remain unaltered until May 1981.

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