

'The end of the tunnel', from 30 jours d'Europe (January 1972)

Caption: In January 1972, in the monthly publication 30 jours d'Europe, journalist, Philippe Heymann, reviews the many events that had an impact on the economy in 1971.

Source: 30 jours d'Europe. dir. de publ. FONTAINE, François ; Réd. Chef CHASTENET, Antoine. Janvier 1972, n° 162. Paris: Service d'information des Communautés européennes. "La sortie du tunnel", auteur:Heymann, Philippe , p. 9-10.

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1972

The end of the tunnel

1972 will not be such a bad year as was suggested a few months ago. After a restless 1971, packed with important events, this will be a period of calm and reflection: relative calm in terms of the economic climate and reflection on major current economic problems.

A watershed

Recent months have been full of significant events. These were predictable, and some of them were inescapable, but they made 1971 a watershed in post-war history.

First came the *spring monetary crisis*: on 9 May, the German Government, strongly encouraged by its Minister for Economic Affairs, Karl Schiller, decided to float the mark. Even though attempts were made to maintain composure, Germany's European partners were practically presented with a *fait accompli*. In floating its currency, Bonn was seeking to put the brakes on internal price increases and reduce the country's trade surplus.

Yet this brought the first steps towards monetary union of the Six back to square one: on 15 June, the Community's Member States were required, for the first time, to reduce their currencies' flotation margins within the Common Market from 0.75 % to 0.6 % on either side of the official exchange rate.

Europe caught short

Towards the summer, things started to happen all at once: the American economy remained depressed, despite the Nixon Administration's attempts to jump-start it; the long-awaited and long-predicted recovery failed to appear, and soon there would be only one year left until the presidential elections. Above all, for the first time in more than 30 years, the American trade balance was in the red. So it was time to act, and act quickly.

On 15 August, after a 'council of war' with his main economic advisers (but not including those responsible for foreign policy), *President Nixon completely abolished the dollar gold standard*, called for a revaluation of the major Western currencies, applied a surcharge of 10 % to over half of US imports and took a number of other economic measures, some of which discriminated against foreign products.

The news was a bombshell, not so much in its substance as in the manner in which the measures were taken and announced. Everyone had been long aware that such measures would have to be taken sooner or later. But the United States' major allies reacted strongly to the blackmail element and the unilateral decision.

Europe was completely caught short by these measures. The dichotomy between the economic and monetary ideas of Karl Schiller and Valéry Giscard d'Estaing was not new, but it was emerging more clearly and made it difficult for the Six immediately to find a common position. Mr Schiller believes in the free market and floating currencies, while Mr Giscard d'Estaing believes in fixed exchange rates and the virtues of controls, sheltering France from the storm by means of a dual exchange market.

In the months to come, it was Mr Giscard d'Estaing's version that would triumph: contrary to all expectations, the French dual market worked reasonably well, while the mark floated so high that it seriously damaged German exports and compounded the pessimism and concern of German manufacturers, who had been in a tight corner throughout the year.

The silver lining

As always, the crisis and the related developments had a silver lining: the European countries (including Germany) were unanimous in calling for the dollar to be devalued. Importantly, the United Kingdom clearly,

albeit discreetly, supported the Six against the United States. It resulted in an official decision to devalue the dollar, adopted in Washington on 19 December at the end of the conference of the 'Ten'.

These difficulties prove even more clearly than in the past that economic and monetary union of the Six is essential. The first effects are more than likely to be seen in the next few months.

In the meantime, the events were to leave their mark on the global economy: six months of the floating mark in 1971 and some five months of uncertainty and American surcharges. Other countries, in particular Denmark, have a tendency to imitate the United States in order to get out of a bad patch. And there is a danger that 1972 will bring any or all of the following: a shrinkage of world trade, a new torrent of international protectionism, and an economic recession.

Fortunately, there are a few rays of sunshine in the midst of all of these alarming events. The British Parliament has approved in principle the country's accession to the European Community, which has somewhat improved the mood of British industry. The two Germanies are enjoying warmer relations, as are the United States and China. And, in the final weeks of 1971, we even saw detailed trade negotiations between the USA and the USSR, which is a major breakthrough in world trade. And now, at the end of 1971, everyone is conscious that, once the monetary problems are overcome, most of the clouds lowering over 1972 should lift.

Grim climate

So the economic climate of the new year should be less grim than was forecast a few months ago. True: in order to ease negotiations with the Americans (and with the trade unions), governments and manufacturers tend naturally to exaggerate the situation. 1972 is certainly not going to be a year of euphoric growth. But *it is quite wrong, nevertheless, to speak of recession and to start comparing it with 1929*. The first part of the year will be more difficult, but, as we approach the summer, things should be looking up considerably. However, inflation will continue, and this will adversely affect company profits.