

'A real exchange currency', from Der Spiegel (12 November 1984)

Caption: In November 1984, five years after the launch of the ECU, the German weekly magazine Der Spiegel assesses the success enjoyed by the European currency unit on the international financial markets despite the initial scepticism of the German banking sector.

Source: Der Spiegel. Das Deutsche Nachrichten-Magazin. Hrsg. AUGSTEIN, Rudolf ; Herausgeber BÖHME, Erich; ENGEL, Johannes K. 12.11.1984, n° 46. Hamburg: Spiegel Verlag Rudolf Augstein GmbH. "Echte Devisen", p. 63;66.

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A real exchange currency

The European currency unit, the ecu, is becoming increasingly popular throughout the world — but not in the German Federal Republic.

Helmut Schmidt is particularly proud of his baby: ‘The ecu’, enthused the former Chancellor, ‘has carved out an unexpected career for itself.’

It is not yet a topic of conversation amongst ordinary people. Some say quite correctly ‘Ekoo’, but mean a Franconian beer. Many think of an old French coin called the écu. Others, though, spell out the letters ECU and think it is a new political party. The *New York Times* gives some help in pronunciation: ‘say Eh-cue’.

‘ECU’ is short for ‘European Currency Unit’, the English name for it. It is like a basket containing the ten currencies of the EC Member States. This ‘showpiece of the European Monetary System’, as President of the Savings Banks, Helmut Geiger, described it, is becoming increasingly popular throughout the world.

That is really surprising. In 1978, Helmut Schmidt, the inventor of the ecu, had simply wanted to create an artificial currency, a uniform clearing system within the Community. As a method of payment, the ecu should have been used only for settling accounts receivable and accounts payable between central banks.

Now, suddenly, banks and companies, savers and states are handling many billions of ecus, from Ireland to Italy and from the Soviet Union to South Africa. Besides the official ecu dealings, there is an emerging commercial market for the ecu.

On the other hand, this newfangled currency is almost invisible and really quite difficult to understand. To date, no ecu notes have been printed or ecu coins minted. Even Leonhard Gleske, the board member of the Bundesbank responsible for currency matters, had, in his own words, to ‘make a lengthy study’ of what the European currency now ‘really is’.

Another unusual aspect is that the Board of the German Bundesbank, together with the Council of the Central Bank — in this country the highest authority on currency matters — are in disagreement over the rapidly appreciating ecu currency. The majority of the Board is wary of Schmidt’s idea of ‘a common currency throughout Europe’. For that reason, the ecu remains illegal in the German Federal Republic for the time being.

Anyway, it is not a currency, maintained Mr Gleske in Frankfurt, just an accounting unit. There is no country in which the ecu would be valid as the legal tender. Moreover, there is no institution that would be ‘responsible for it’.

Of all people, the Germans, who, in other ways, willingly extol European integration and heap fulsome praise on their liberal capital market, are excluding the European currency — the only Member State in the Community to do so. The currency giants in Frankfurt have been unable to prevent the ecu’s steep rise. André Swings, Director of the Brussels Kredietbank, thinks that the hitherto ‘embryo currency’ had developed ‘fantastically’. ‘It started rather hesitantly,’ says Swings, ‘then it moved forward steadily and has recently progressed rapidly to become a genuine European currency.’ In the meantime, several hundred savings banks and commercial banks deal in ecus.

In international trade using loans, the ecu has become the third largest currency after the dollar and the mark. Companies such as Hydro-Québec, Gaz de France, Rank Xerox and Thomson-Brandt accept payments in ecus. The Governments of Austria, Ireland, South Africa and Denmark have borrowed money by issuing bonds denominated in ecus.

Some firms, such as the French conglomerate Saint Gobain, the Italian motor giant Fiat and the French cooking-oil manufacturer Lesieur, settle part of their export and import business in ecus. About one fifth of Italian foreign trade is entered in the accounts in European currency units. The Soviet Union invoices its

timber exports to France in ecus, and the Moscow Vneshtorg Bank (Bank of Foreign Trade) recently negotiated a loan of more than ECU 75 million. After the Soviet Union, it is the Chinese who are now taking an interest in the ecu. As regards their foreign trade, the Beijing Government wants to free itself from the erratic fluctuations of the dollar. The European Commission is also dealing with several OPEC countries. Efforts are being made to decouple the oil price from the dollar and link it in future to the ecu. Japan and Canada have officially recognised the ecu as an exchange currency.

Meanwhile, the Rome, Milan, Paris, Copenhagen and Brussels stock exchanges all quote an exchange rate for the European Currency Unit on a daily basis. Last week, the ecu was valued at approximately DM 2.23. A French banking group is now bringing out ecu travellers' cheques. Since last August, interpreters at the European Commission have been paid their fees exclusively in the European currency.

The advantages of this artificial currency stem from its structure. The ecu is a mixture of strong and weak currencies. All exchange currencies are replaced according to the economic strength of the EC Member States: pound and franc, mark and lira, guilder, krone and now also the drachma.

However complicated the structure may at first appear, the ecu ultimately remains an attractive currency. Exchange fluctuations of weak currencies are brought under control through the strong exchange currencies. The ecu is comparatively stable and is, for that reason, particularly popular in countries with fairly high inflation rates, such as France, Belgium and Italy.

It is precisely this construction that made things difficult for the German central bankers to permit the ecu to be used within their own sovereign territory. Since the mark is included in the currency basket, Bundesbank Director Siegfried Bürger advises that the ecu is 'not a foreign currency'. In Germany, however, there is but one native currency, to wit the mark. Besides, the Bundesbank might well have had the aim, according to the legal expert, of keeping currency and capital transactions free from 'indexing clauses'. The ecu value, however, follows the value of the ten EC currencies.

Experts suspect that such arguments are put forward by the state banks only as a front. Werner Lutz of the European Savings Banks Union believes that, in reality, the Federal bankers are living 'in fear of losing their freedom of action'. That is to say, if a European Central Bank were to be set up, the Bundesbank might well be reduced to the status of a branch office.

Even Bundesbank board member Leonhard Gleske makes no secret of this fear: 'We cannot and will not allow responsibility for German monetary policy to be taken out of our hands.' Admittedly, the ditherers in Frankfurt can hardly stop this high-flying European dollar. As the Father of the ecu, Helmut Schmidt remarks, 'The foundation stone has been laid.'