

'Germany in isolation' from Corriere della Sera (10 May 1971)

Caption: On 10 May 1971, the Italian daily newspaper Corriere della Sera leads with the German decision to allow its national currency to 'float' and displays anxiety about the consequences of a worsening international monetary crisis.

Source: Corriere della Sera. dir. de publ. Spadolini, Giovanni. 10.05.1971, n° 18; anno 10. Milano: Corriere della Sera. "La Germania isolata", auteur:Lenti, Libero , p. 1.

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http://www.cvce.eu/obj/germany_in_isolation_from_corriere_della_sera_10_may_1971-en-db8e3783-f7ad-4853-98b7-a66eb383b886.html



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Germany in isolation

I shall recapitulate certain facts that in recent times have caused a serious crisis in the international monetary system, a crisis now 'provisionally' resolved through an increase of the fluctuation margins of the German mark and Dutch guilder and a revaluation of the Swiss franc. It is a crisis, therefore, that affects the exchange rates not only between the dollar and European currencies but also between the European currencies themselves, and more specifically those of the European Common Market. In the current situation, the French franc, the Italian lira and the Belgian and Luxembourg francs have not in fact increased, nor do they intend to increase, their fluctuation margins in relation to the dollar.

In Europe, but not only in Europe, large quantities of dollars, or Eurodollars if you prefer, are circulating, resulting mostly from the US balance of payments deficit. In 1970, as a consequence of the slowdown of the economy in the United States, and therefore the falling US interest rates, the Eurodollars that had crossed the Atlantic in 1969, when interest rates in the USA had soared, returned to Europe where interest rates are still high. This is what has led to the increase in the volume of Eurodollars convertible into European currencies in unlimited quantities on the basis of predetermined, and therefore practically fixed, parities, given that a fluctuation margin of plus or minus 0.75 % is fairly moderate.

These Eurodollars, which can be multiplied as a credit currency without any rules whatsoever, are feeding roaming capital flows, by definition of a speculative nature, as they move rapidly from one money market to the next, not just to those with higher interest rates but also to markets offering the prospect of currency revaluations. The German market has offered ideal conditions for speculative manoeuvres.

The rule of fixed exchange rates on which the international monetary system is based has obliged the German Central Bank to buy dollars in large quantities at a rate fluctuating between these moderate margins. In order to buy dollars, it has first had to issue marks. But issuing marks in quantities exceeding the needs of the German economy, more or less determined by trends in income, means that an undesirable inflationary burden is imposed. This in turn has led to the problem of whether to revalue the mark, once again giving in to the speculators, or to broaden the exchange rate fluctuation margins. The German Government has decided to follow the latter road despite the obvious negative effects on the future of the European Common Market.

Increasing the exchange rate fluctuation margins does not, as a matter of fact, infringe the rule of fixed exchange rates. However, it lessens the significance of the rule. In other words, over a provisional period of four months the German and Dutch Central Banks will no longer have to intervene if the exchange rate, for example against the dollar, drops below 0.75 % of parity; this will formally remain fixed for a short period, but only when it falls below a given percentage, fixed either officially, for example at 5 %, or merely unofficially. However, as the exchange rate of other currencies, including European currencies, might move in the opposite direction to the dollar, the variation in the ratio between the mark and these foreign currencies could even result in twice that percentage. In this context, it should be remembered that the US financial authorities are essentially in favour of broadening the fluctuation margins for the exchange rate between the dollar and other currencies. In other words they accept a revaluation of these currencies against the dollar on condition that the ratio between the dollar and gold remains fixed.

From this, it may be deduced that the German Government's decisions amount to a veiled revaluation of the mark. This is a hard blow for the European Economic Community. One only has to think of the problems that these decisions will raise for the fixing of agricultural prices within the Community, these prices being fixed in terms of dollars, considered as the accounting currency. Germany has thus isolated itself within the Community, even if it is lagging behind the Netherlands.

It is a known fact that in order to analyse the probability of arriving at a common European currency, the interaction between the Community currencies has been reinforced by a reduction of the fluctuation margins from 0.75 % to 0.60 %. What is this agreement worth today? Can it be maintained in order that the European currencies fluctuate together in relation to extra-European currencies? What effect will the German Government decisions have on the volume of trade within and outside the Community? What consequences

will they have on Great Britain's accession to the Community?

Questions and more questions, and no conclusive answers can be given to any of them. One thing alone is certain: we are all together in the same Community boat. But one cannot help thinking that every country intends to row at its own pace. And the boat is therefore listing from side to side. A minimum of common orientation is needed more than ever. Otherwise we will all sink together.

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