

## 'Franco-German monetary agreement', from Corriere della Sera (17 November 1971)

**Caption:** In November 1971, the Italian daily newspaper Corriere della Sera reports on the growing tension between the Federal Republic of Germany (FRG) and France over measures envisaged to combat the European monetary crisis.

**Source:** Corriere della Sera. dir. de publ. Spadoloni, Giovanni. 17.11.1971, n° 271; anno 96. Milano: Corriere della Sera. "Accordo monetario franco-tedesco", auteur:Ballardin, G.F. , p. 22.

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## A first step towards resolving the financial crisis

### Franco-German monetary agreement

*Terms of the agreement kept secret — Ratification due in Paris in December at the meeting between Brandt and Pompidou — Menace of recession persuades Bonn to stop floating of the deutschmark — Dollar may be devalued*

From our own correspondent

**Brussels, 16 November.**

France and the Federal Republic of Germany have reached a secret agreement on monetary issues that should enable the Europeans and Americans to set in motion a solution to the crisis caused by President Nixon's economic measures. The Franco-German agreement should be ratified at the summit meeting between Chancellor Willy Brandt and President Georges Pompidou, to be held at the beginning of December.

The monetary arguments between France and Germany, which have grown more heated over the last few months, began last May when Bonn unilaterally decided to revalue the deutschmark in order to arrest the flow of speculative capital and to stem inflation. Has the German decision, which was ratified through gritted teeth by the Common Market, brought about a crisis in farming in the Common Market (which, as Pompidou later explained, was forced to make a pact with the devil), and has it indefinitely postponed the ambitious plans for the creation of a European monetary bloc with a common currency?

The French, who are extremely sensitive about Germany's now undisputed economic superiority in Europe, interpreted Bonn's decision as an attempt to impose some sort of deutschmark hegemony on the Europe of Six. Since that time relations between Giscard d'Estaing and Schiller have become so strained that the two Ministers have earned the sobriquet 'the warring brothers in the European club'.

In September the six countries of the Common Market managed to reach a common position on the stance to be taken vis-à-vis the United States: the revaluation of the principal European currencies, sought by Washington to boost American exports and improve the US balance of payments, would have to be accompanied by a devaluation of the gold-value of the dollar and the abolition of the US surcharge on foreign imports. That common position towards America, however, masked profound disagreement on 'internal' problems: while the French insisted on the need to restore fixed exchange rates within the Common Market, thereby putting an end to the floating of the deutschmark and the florin, the 'Superminister' for the Economy, Professor Schiller, continued to champion the floating of the German currency even at the cost of halting European construction.

On 20 October, Brandt wrote to Pompidou to propose a Franco-German summit to dispel the discord and misunderstandings that had recently arisen between the two countries, and not only in the monetary sector. Pompidou was initially rather reluctant to accept the proposal because France and Germany had not at that time managed to resolve the monetary differences that have exacerbated relations between them over the last six months. In the meantime, however, Schiller and Giscard d'Estaing have reached a broad secret understanding on the major issues in the Franco-German monetary dispute.

That general agreement was finalised once and for all on the fringes of the recent unofficial meeting of Common Market Finance Ministers in Versailles. However, the other Community countries have not yet been brought into the picture.

The menace of recession looming over the Europe of Six persuaded Chancellor Brandt to stop the floating of the deutschmark and to establish a new parity. Since May the deutschmark has already undergone a de facto revaluation of 9 % against the dollar and the French franc, and 6.5 % against all other currencies. German exports have encountered difficulties as a result and many German firms have been forced to close down or lay off workers.

The Government in Bonn has for some time been saying that it is willing to revalue the deutschmark by 7 or 8 % provided that France makes 'a gesture' in the same direction. But the French had always refused to do so for fear of making French industry less competitive on world markets and so as not to give in to the Americans who, as Giscard d'Estaing explained, 'are trying to export their unemployment to Europe'.

The French are also fearful of Germany's economic power (in the last 13 years the value of the franc against the deutschmark has fallen 65 %), and they do all they can to enable their industry to stand up to German competition.

The secret agreement reached between Bonn and Paris provides for the Americans changing the gold parity of the dollar, established in 1934 by President Roosevelt at 35 dollars per ounce. The deutschmark would be revalued by perhaps 7.5 or 8 % (the figures are being kept secret to prevent speculation) as compared to the old parity. When added to the effects of the devaluation of the dollar (which could amount to 5 %), the effective value of the deutschmark would increase by 12 or 13 % compared to the old parity.

The gold parity of the franc would not be changed: however, the franc would undergo a de facto revaluation equal in amount to the devaluation of the dollar. The Japanese yen would have to be revalued very substantially (the Americans are openly asking for 20%). The Italian lira would return to its old parity (625 lire to the dollar) or would undergo a very slight devaluation, which would reflect the situation as it currently stands. Since 15 August the lira has depreciated by about 2 % compared to all other world currencies. Against the dollar, however, the lira has undergone a de facto revaluation of 3 %.

The Franco-German agreement should now enable the Six to present a common front at the Ministerial Meeting of the 'Club of Ten' planned for the beginning of December in Rome under the Presidency of the American Secretary of the Treasury, John Connally. At that meeting the world's ten wealthiest countries (which include the countries of the Common Market, the United States, Canada and Japan) could decide to bring the monetary crisis to an end by accepting an agreement that would provide for the removal of the USA's 10 % surcharge (which would probably be conditional on Common Market concessions in the citrus fruits and tobacco sectors), the devaluation of the dollar against gold and the revaluation of the 'strong' European currencies and the Japanese yen.

The Americans are somewhat reluctant to agree to a devaluation of the dollar, which would officially bring to an end the hegemony of the American currency on the international monetary scene. However, as a Common Market expert explained last night, 'a move of this kind would revalue the USA's monetary reserves, reduce the size of the United States' debts in the world and improve the competitiveness of American exports on world markets, finally ending one of the most irritating crises of the post-war period.'

The Americans must now take the floor, believes President Pompidou, who has requested that the summit with Chancellor Brandt take place after the next meeting of the 'Group of Ten', when we know whether the United States is in agreement with the Europeans' proposals.

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