

Interview with Jacques F. Poos: the establishment of the European Monetary System (Sanem, 16 April 2004)

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[Étienne Deschamps] Let us return, if you do not mind, to matters of a more historical nature. Let us go a little further back in time. In March 1979, you were Luxembourg Minister for Finance and, as such, participated directly and actively in the establishment of the European Monetary System. What were the objectives of this monetary system, and which were the salient points of the negotiations preceding it?

[Jacques F. Poos] These were negotiations that today could be described historically as precursors to those leading to monetary union and to the euro. At the time we had the European Economic Community with its four freedoms of movement and currencies that fluctuated freely, revaluing and devaluing, and destroying the medium-term prospects of both entrepreneurs and consumers. Every time there was devaluation, there was a price rise, there were austerity measures and so forth; the underlying idea being that true economic union required exchange rate stability. The European Monetary System of 1979 — I think it was in April, 19 April 1979 — aimed at maintaining fluctuations within a narrow margin. It was the establishment of the currency snake. Currencies evolved within a fixed margin, and if they did not manage to maintain fixed parities, then a meeting was held of Finance Ministers with devaluation or a revaluation thrown in, or with several successive devaluations at differential rates. We can say it was the beginning of monetary discipline. There was not yet a stability pact, but everyone knew: ‘All right, if I do not manage to control my deficit, or curb my inflation, I shall be pushed out’ - and there were countries that left temporarily and returned later on. All this was covered systematically in the Delors Plan and the negotiations for the Treaty on European Union with proper stability criteria that everyone had to respect before entering the system, and the stability pact that went with it, which required countries to respect the criteria even after participating in the system. So it was a change that went in the right direction. I still consider the euro the European Union’s greatest achievement of the last twenty years. It is really crucial to have a single currency in our wallets which does not fluctuate from one member of the system to another, and which is strong against the dollar. And I am delighted with it.

[Étienne Deschamps] But is not the euro too strong today? Sometimes you hear in the press, on the street, that...

[Jacques F. Poos] You hear things on the street, but that is the partisans of devaluation talking. Some countries really had a habit of devaluing whenever they were unable to curb their expenditure or their internal inflation. They would choose the easy way out, that of devaluation. No, you can see from the German example that German exports are doing very well, despite the strong euro. Therefore I presume that it is at about its true value against the dollar. The dollar ought to be even weaker because of the enormous American deficit and the mess caused by President Bush in the world.

[Étienne Deschamps] If we were to return for a moment to the spring of 1979, could you recall whether at that time any particular countries, or any particular Finance Ministers, adopted an especially strong stance and played a predominant role in the establishment, initially, of the snake and, later on, of the system?

[Jacques F. Poos] Yes. France and Benelux were in the vanguard and also Germany, which was, of course, in a more comfortable position since it had the Deutschmark as well as a large internal market. It possessed a strong Deutschmark, which it knew was solid and which it did not need to share, but nonetheless it played the game and the Bundesbank intervened regularly to support the exchange rates within the monetary system; when it no longer wished to do so, a country would be pushed towards devaluation — which is what happened to Italy, Belgium and France on several occasions.