

**Intervention de V. Giscard d'Estaing**

**« European Monetary Cooperation  
– Past, Present and Future »**

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Bucerius Law School Hamburg**

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Dear Helmut,  
Excellencies,  
Dear members of the German British Forum,  
Ladies and Gentlemen,

First of all, I must say that I asked myself why you invited a French man to this German British Forum. Then I thought that there might be at least two good reasons: the British one is that my grand father and now my grand daughter are both Oxford educated; and the German reason could be that I am born in Germany and have a great friendship with Helmut Schmidt!

Under normal circumstances it would have been a classical and purely rhetorical matter to deliver a speech about European monetary cooperation. But today, this is a sort of burning question, and I will try to tackle it in a prudent and realistic way.

In order to understand the present and to anticipate the future of the European Monetary Cooperation,

**I) let me first stress the dimension of what we accomplished so far by remembering the past**

World War II was still raging when 45 allied nations gathered in **Bretton Woods** in July 1944 for the United Nations Monetary and Financial Conference to set up a system of rules and procedures regulating the international monetary system.

The end of the War then established the **absolute supremacy of the USA and of the dollar** in the western world, and saw the new international monetary system being launched: each country maintained the exchange rate of its currency within a fixed value -plus or minus one percent- in terms of gold. All currencies were thus defined in relation to the dollar, itself convertible into gold, and above all, "as good as gold."

The institution charged with the **supervision** of all that was the **International Monetary Fund (IMF)**, which had been mandated to monitor the economic and financial policies of its member countries, with the ability to make loans to bridge temporary imbalances of payments, in order to come back to a balanced external account.

Let us observe that the IMF did not receive the mandate nor did it have the expertise to regulate the banking activities in the participating countries.

**This system has worked rather well during twenty years**, but it happened to **weaken** under the influence of:

- growing deficits of the balance of payments
- the numerous devaluations in Europe
- the weakening of the dollar itself

By the way: the Bretton Woods system did not prevent or limit the American external deficit.

With regard to the influx of US currencies and a constant pressure for revaluation of the DeutschMark, the Germans decided to float it. Being faced with increasing strains, **the system collapsed between 1971 and 1973** following the United States' suspension of convertibility from dollars to gold.

The dollar was devaluated and all the major currencies were then floating. In 1975, we created the G5 in Rambouillet to calm things down.

**France then tried to propose a system of "fixed but adjustable rates"** but was not followed by its partners. The floating of rates then became the rule, codified by the Jamaica agreement of January 1976, which in fact only regularised a situation already on the way since march 1973. This is the system which prevailed for 32 years and is still in place today.

**The European countries enrolled in the common market during that period had to face some great difficulties due to the fluctuation of parities**

The **Rome Treaty of 1957** was silent about any sort of monetary co-operation as the EC member states referred to the fixed rates system with the dollar as key currency.

Only when the British government was forced to devalue the pound after the attack on it and a **run on gold in the "sterling area" in 1967**, the European heads of State and Government inscribed the issue on the agenda **of the Hague summit of 1969**.

One year later, the "**Werner report**" proposed gradual, institutional reform leading to the irrevocable fixing of exchange rates within a decade, and the adoption of a single currency, going hand in hand with the freeing of capital movements throughout Europe. But the international crisis impeded these strong ambitions.

In 1972, the "**snake in the tunnel**" was the first concrete attempt at European monetary cooperation, aiming at limiting fluctuations between different European currencies : the bilateral margins between the currencies of its members were limited to 2.25%, implying a maximum change between any two currencies of 4.5%, with all the currencies tending to move together against the dollar.

## II) With this step, we entered the active phase towards the European Monetary Union and its single currency (PRESENT)

Together with Helmut Schmidt, whom I visited here in Hamburg a few weeks before the decisive meeting of **Bremen in July 1978**, we had developed the concept of the European Currency Unit (ECU) as basket of currencies, preventing movements above 2.25% (6% for Italy) around parity in bilateral exchange rates with other member countries, whatever their strength or weakness.

Thanks to these efforts, the **European Monetary System** could be formally adopted in December 1978 at the Council of Bruxelles and be launched in March 1979, linking all the European currencies, except the Pound, to the ECU as the new unit.

This was a quite technical though pragmatic revolution, bringing to an end a period of monetary turmoil in Europe.

It may seem far away, or not very important today, but in fact this were two dramatical historical changes: the Rome Treaty had emerged at the end of the war and the Brussels Council of 1978 has introduced Europe's monetary system

Today, in front of the young Helmut Schmidt, who is not yet 90 years old, it is a great joy for me to bear testimony that without his competence and determination, this result would never have been reached. For the simple reason that the Germans would not have accepted so easily to abandon the DM. Thank you again for this, Helmut.

With the **Maastricht Treaty** of February 1992, the Economic and Monetary Union has finally been introduced in the first pillar of the European Union, providing for the establishment of a single currency in three successive stages.

**The Third stage** (from 1 January 1999) irrevocably fixed the exchange rates and introduced the single currency on the foreign-exchange markets, as well as the euro notes and coins.

**Eleven of the then fifteen EU member states adopted the euro** as the single currency. They were joined two years later by Greece. Slovenia entered the euro zone in 2007, followed by Cyprus and Malta this year.

Some Member States have not yet adopted the single currency. That is the case of the United Kingdom and Denmark, both of which have used an opt-out clause, and Sweden, following a referendum in September 2003. Remember that they all signed the Treaty and that the opt-out clauses were, at the beginning, conceived as being only short term clauses.

**Today, at the dawn of the 10<sup>th</sup> anniversary of the common currency**, we can say that **the Euro is the greatest success story** of the last decades, as it represents the most tangible result of European integration.

Not only has the EMU helped to develop the single market and integrate product markets by removing exchange rate risks and lowering cross-border transaction costs. The Euro does provide numerous concrete advantages for the citizens in their cross-border affairs, and thus has become **an important factor of homogenization and identity** inside the EU, and towards the rest of the world.

In ten years of existence, the Euro created a concrete solidarity between the member countries, and established itself as the world's second currency after the US dollar. I

remember that Alan Greenspan, whom I talked with in the nineties, said to me about the single currency “You won’t do it, and if yes, you will fail”.

- 80 % of the transactions are being done with either the dollar or the Euro
- 47 % of the supply of international debt bonds are now denominated in Euros versus 30 % in dollars
- The part of the Euro in the official exchange reserves reaches 25 %
- 40 countries have established an official monetary link with the euro.<sup>1</sup>

Let me stress this: in a disturbed world, in an ocean of financial greed and banking incoherence, **the euro zone appears as an island of rationality**, on which the Euro is being managed with great expertise and discipline by the European Central Bank and its chairman.

But there are, of course, **still remaining challenges**, as the one of making the Euro a matter of citizen concern. People should be proud of their currency! We have to work to give them this exuberant feeling.

**The crisis we are going through at this moment raise new problems for the Euro. Personally, I think that there is not one but two crises.**

The ordinary citizen has some difficulty to distinguish them, since even the professional commentators themselves are mixing them up for good or for bad reasons:

a banking crisis caused by the speculation that has been attracted by the large quantity of liquidities in dollars, and then a recurring crisis that has resulted in the strong slowing of the world economic activity. These two crises have been triggered off in a quasi-simultaneous way, but they are in fact independent, and call for different handlings.

1 – **The banking crisis** is of a classical, speculative type. It has its origin in the offer on the market of new investment “products” of high profitability, but with under-evaluated, or hidden, risks. These “products” have been worked out only in New York and in London, hence the very strong jolt of the American and British banks. They have been spread in a lesser proportion in some of the euro zone banks. Nevertheless the confidence has been shaken everywhere. Banks stopped lending between each other, thus creating a liquidities crisis, entailing a tightening of the credit to individuals or enterprises. The measures taken in the euro zone seem adapted to this crisis and move away the perils, providing that the speculative circuits are not supplied anew. But the confidence will be restored only progressively, and the profits of the banks, minus the speculative gains, will bring a continuous flow of disappointing news to the market.

2- **The second crisis, the slowing of the world economic activity**, has begun since the first quarter of 2008: this crisis is the most damaging of the two because it is not limited to the banking sector, but hits the real values of consumption and investment, meaning the standard of living and the employment. It is the one that weighs very heavily by now on the stock markets.

It is a fact that if we had not had the euro, we would have been struck by competitive devaluations that would have caused very strong jolts in our system. The euro has been an extraordinary shield, protecting the whole of the zone.

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<sup>1</sup> chiffres donnés par J.-P. Jouyet dans Le Monde, janvier 2008

### III) Let me come now to the third and last point, the FUTURE of European monetary co-operation.

This subject and others linked to the two crises will be debated, in a few moments, by the “Knights of the Round table”.

That’s why I will merely point out the following remarks:

- the monetary co-operation between the countries of the euro zone, characterized by the use of the Euro and its management by the European Central Bank, is not endangered and must be pursued.

For the countries which adopted the Euro, the monetary policy is bound to be an exclusive EU competence. The ECB should add to its well known aims the concern of monetary security. For any member state of the Euro zone, the probability to leave it does not exist. There is no one to propose it.

- all the member states of the European Union do have the vocation for adopting the Euro. Among the new member states, many expressed their intention to pursue this aim. The admission criteria have to be strictly respected as figuring in the Treaty. They are the guarantee for the credibility of the whole, at a time when the financial system faces a strong need of confidence.

- the decision of an eventual participation of Great Britain should be left to the British. From the point of view of the Euro zone, the current situation does not present any inconvenience.

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#### The European monetary co-operation could take two directions:

- Inward, by completing and reinforcing itself
- Outward, by bringing the contribution of the Euro zone to the debate about a better governance of banking activities.

1.) I have recalled above that the establishment of the Euro had to go hand in hand with “the convergence of the economic and monetary policies of the member states in order to ensure the price stability and the health of public finance.” I will not intervene in this debate about a Euro zone government.

The issue is more one of political will than one of improving the governance structures. The “broad economic policy guidelines” (BEPG) do exist. The question is not to create them but to respect them. The current circumstances probably call for an actualization of these guidelines. We should apply our efforts to follow them instead of ignoring them.

Certain decisions should now be taken by qualified majority instead of unanimity, abiding by the competences of the Union: for instance when it comes to competitive fiscality

or decisions linked to the existence of the so-called “fiscal paradises” inside the European Union.

Likewise the banking crisis has shown the gaps of banking regulation and of the supervision of its enforcement. These gaps have to be bridged as far as the offer of non-identified and non-transparent speculative products is concerned.

**The banking activity has to come back to its normal role** and the market should remain open to the offer and demand of identified and non speculative products.

The actualization of this regulation should tend towards harmonization of the rules inside the Euro zone, as the major part of the banks practise cross border activities.

We could also suggest the **designation of a personality to the ECB**, in charge with alerting the national central banks about outbursts or deviation of the banking practices. It is, in fact, very curious that no one rang the bells. The existence of such a “censor” mandated with a warning power would protect the system. It would really be preferable to the nomination of public administrators in the boards of the banks, whose inefficiency past experience has eloquently proven.

2.) Vis à vis the external world, the euro zone should actively engage a reflection about the new precautions to introduce in the management of the international banking system. But we must be realistic: these negotiations will take a long time and we must not expect a universal regulation as their outcome, but rather the correction of certain operations, as for instance off-balance-sheet commitments by banks or the introduction of opaque investment products on the market.

**We must not imagine being able to correct the evils of globalization by the benefits of globalized regulation!** The latter would be inapplicable and, above all, impossible to control. This would be a utopia, heading to new crises.

Each great entity of our planet should contribute to the cleansing of the practices: first the US, which started to do it. The outcome of the US elections will probably give a new impulse to this; then the Euro zone, whose leaders engaged it; and the developing countries, with regard to their particular situation. And so, our global village would then be better organized.

And I strongly recommend to avoid the utopian engagement for a reform of the world’s monetary system, which has absolutely no responsibility in the crisis. And I diverge with Helmut on this. If some statements introduced a doubt about the solidity of the currencies, it would trig a tide of speculative conversions, which could create panic in the opinion.

Let’s be clear: We will not return to fixed parities, as there is no acceptable monetary standard today, not even the dollar.

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Here in Hamburg, we should be happy about the fact that Europe now has a solid monetary foundation, certainly one of the most solid of the world.

We should work calmly to complete and adapt it.

**We should appear as thoughtful and determined partners in the great debate about the improvement of the international banking system.**

We should pay attention not to fall into the utopia of a global regulation, but to fight speculation by reason.

**Speculation nourishes itself on the excesses of greed. Reason longs for harmony. This is an old battle that Europe should try to win.**

I will add that in this difficult period, in this battle for solidarity and reason, **the intimate “entente” between Germany and France** appears to me as more important than ever. I am very worried about the rumours I hear about successive disagreement.

It was us, Germans and French, who created with our partners, of course, the base of European monetary stability. It is our role to supervise together that nothing may compromise the strength of this very useful structure.

I thank you.

Ich danke Ihnen.

V. Giscard d'Estaing